

The Management Review

JUNE, 1954

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**Materials Handling: Industrial Common
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General Management

NEEDED: A "NEW LOOK" FOR PUBLIC RELATIONS

"NO MAJOR industry," said adman Bruce Barton 19 years ago, "has the moral right to allow itself to be unexplained, misunderstood or publicly dis-trusted, for by its unpopularity it poisons the pond in which we all must fish." As U. S. industry has outgrown the proprietor-owned and operated companies of old, and as organized labor has gained in strength, more and more corporations have recognized the need for being understood by their employees, stockholders and the public at large. Yet the sad fact is that industry has lost ground in its public-relations campaign.

Six years ago, Elmo Roper conducted a survey to find out which groups were thought to be doing the most good for the nation—religious, business, governmental, congressional or labor. Business garnered 20 per cent of the votes, second only to the religious category (34 per cent). But when Roper ran the same survey last year, business slumped from 20 per cent to 10 per cent, while the religious groups rose to 40 per cent and government jumped from 11 per cent to 18 per cent. On the question of who was doing the least for the country, business, which got only 6 per cent of the votes in 1948, got 9 per cent in 1953.

One trouble is that industry frequently waits until it is in trouble before worrying about its reputation. The tobacco companies, for instance, have long known that studies on the connection between cigarettes and cancer were being made. But they waited until the results were

publicized and sales started to fall before getting together to make their own tests.

Many companies also fail to realize the difference between pressagency and public relations. Pressagency is usually a one-shot attempt to get a story in the papers. Public relations is a long and continuing campaign, aimed at molding public opinion on a broad basis for the benefit of a corporation.

Many years back, for example, when Carl Byoir took over the Libbey-Owens-Ford plate-glass account, he got architects to plug for more glass in houses, had a book written on glass, and encouraged automen to stress the safety features of more visibility (and more glass). By increasing the over-all use of glass, Byoir helped boost the sales of his client.

Many of the companies that realize the value of public relations still regard the job as a mere offshoot of advertising or a task for a glad-hander. They appoint incompetents (of which the field is full), and assign them a spot so far down on the table of organization that they often have no knowledge of what the company is planning—or why.

Many a corporation has grown so big that unless a broad effort is made to "humanize" it through the officers, the public will see it as only an impersonal conglomeration of plants. Giant Du Pont, one of those that have realized the need for a more personal approach, has made President Crawford Greenwalt its public face and spokesman. On the other hand, there are many corporate executives who

For publishers' addresses or information regarding articles or books, apply to AMA headquarters.

still feel that when they have issued a handout to the press, they have done their duty.

For a good company, there is no mystery in good public relations. The secret is simply to tell all it can about itself. One of the first to realize this was the American Telephone and Telegraph Company, which staffs its public-relations department with ex-newspapermen and experienced company hands. Five of A.T.&T.'s subsidiary Bell presidents once headed its public-relations program.

—*Time*, May 10, 1954, p. 100:1.

A.T.&T. capitalizes on its own greatest asset. Instead of answering stockholders' complaints or other communications by letter, it calls them up.

In a broader sense, Inland Steel Co.'s board chairman Clarence Randall summed up the public-relations job still to be done: "Every American businessman must have his own thoughtful, personal philosophy . . . if we are to be restored as leaders. We must communicate those ideas to those about us on every conceivable occasion, by every medium at our disposal."

HOW HARD DO EXECUTIVES WORK?

THERE is an interesting fiction these days that goes something like this: Executives are at last getting sensible about work. The worker long ago cut down his work week to forty hours or less, and now the executive is doing the same.

The facts? Executives are working as hard as they ever did. It is difficult to see how they could possibly work harder. Despite all grumbling by executives, high income taxes have had remarkably little effect on executives' drive. And the swing to "human relations" and committee management, while eliminating many of the old work pressures, has substituted plenty of new ones. In fact, executives today are subject to more tensions than ever before.

These are the findings of a *Fortune* study based on interviews, supplemented by questionnaires, with 221 management men, among them 52 company presidents, 23 vice presidents, and 53 middle-management men who have marked themselves or been marked by the company as "comers."

In most places the average executive

office week runs between 45 and 48 hours. Most executives arrive at the office between 8:00 and 9:00 a.m., and leave about 5:30 or 6:00 p.m. At this point the executive is past the halfway mark; the work night has begun. On the average he will work four nights out of five. One night he will be booked for business entertaining—more, probably, if he's a president. Another night he will probably spend at the office, or in a lengthy conference somewhere else. On two other nights he goes home, not to a sanctuary so much as to a branch office. Most executives devote at least two nights a week to business reading.

And then the telephone. "I do a lot of spot checking by phone from home," says an Atlanta executive. "I'd rather do that at night than in the daytime. I have more time, and besides, most people have their guard down then."

Perhaps the most significant change in executive work—and the cause of a good deal of the extra work—is the fact that it involves more and more contacts with more and more individuals. Physically,



executives used to inhabit a fairly limited world; today the sheer number of human relationships that executives are engaged in over a month's time has reached enormous proportions.

The average executive spends roughly six of his eight office hours talking with other executives in meetings and conferences, and he would be considered an odd bird indeed if he went out to lunch by himself. The other two hours are not spent in solitary contemplation; they are no more than the sum of a few minutes here and there between meetings and the ringing of the telephone. The executive, as one puts it, is never alone.

In many instances the team play has grown so frenetic that executives look on the office day as something of an interruption in their actual work. This explains not only the amount of after-hours work, but the tendency of many executives to get to work in the morning earlier than anyone else.

Putting all the commitments together,

we get a minimum work week of some 57 to 60 hours.

Public pronouncements of many corporations suggest that they fear this kind of speedup will debilitate their executives. In practice, however, the corporation does about everything it can to encourage the speedup. Executives questioned by *Fortune* were unanimous that their superiors approved highly of the 55-hour week and liked the 60-hour week even better.

To the executive there is between work and the other aspects of one's life a unity he can never fully explain. How can you overwork, executives ask, if your work is your life?

Executives profess to deplore the impulse that bedevils them into thinking about work after hours. Yet, as their self-diagnoses demonstrate, they would not have it otherwise. And even those who resolutely refuse to take a briefcase home confess that they cannot shut off the business stream of consciousness.

The existing picture, in sum, is of

men so completely involved in their work that they cannot distinguish between work and play, and who are glad they can't.

The question of what changes a man into an executive, and when, can never be fully answered. But there does seem to be a fork in the road, a subtle shift in a man's attitude toward work and its costs, and it is when this subjective change takes place that he really becomes an executive.

The crossing of the line can happen at 30, maybe 10 years later, and some men never know just when the moment of self-realization comes. Up until then, the man has resisted the idea that sacrifices are ahead. But after it comes he will never be the same. At once exhilarated and apprehensive, he has a sense that he is irretrievably committed. He knows that his home life will be shorter, and that in the midst of the crowd at the office

he will be more and more isolated—no longer intimate with those he has passed and not quite accepted by the elders he has joined.

But he sees the sacrifices ahead as a sort of dedication. He feels himself one of a band of men engaged in a great adventure, and when he speaks of making more jobs, of helping people find more satisfaction in their work, the new frontiers in the industry, of better things for better living, he is not simply rationalizing. Unlike the European businessman, he believes in it.

For the time being, it is not likely that executives will achieve the balanced life that has so far, by and large, eluded them. They still will talk of being more sensible, of getting around to those books, of cutting out this ridiculous night work—and they will keep on doing just what they have been doing.

There is too much work to be done.

—WILLIAM H. WHYTE, JR. *Fortune*, Vol. XLIX, No. 1, p. 108:8.

"I'm Sorry, He's in Conference"

IN THE GOOD OLD DAYS, when a secretary said she was sorry because a man was in conference, it could mean that she was handling the call from his desk, or that his conference was at the golf club, or any number of such things.

Now she's really sorry that he's in conference, because probably he actually is—and he'll come out with an odd look on his face and give every evidence of needing a visit with the company psychiatrist.

This is not necessarily because half his people were unprepared for the conference, or because somebody was late, or because someone from accounting kept asking embarrassing questions. It is more likely to be because the conference was full of repetition. During the first five minutes, one man made a reasonable statement that everyone else agreed with. So each of the others, in turn, spent five minutes reaffirming what the man had said.

We got fed up with that in our organization, so we have a rule in our conferences that reads like this:

We want no positives until we get rid of all the negatives. If the time allocated to a man is not needed for negatives, then he may quietly utter a positive or two—but no one may reaffirm those positives. Except to say "Amen."

We also require every department head to write a less-than-one-page weekly report to the president, in telegraphic language. This not only forces him to budget his time and to think more effectively; over a period of time it gets him to speaking more concisely in conferences.

—*Here's Rogers Again* (Rogers Corporation)

GOVERNMENT COMPETITION: PROBLEM AND PERSPECTIVE

TODAY OUR national government is, among other things, the largest electric power producer in the country, the largest insurer, the largest lender, the largest landlord, the largest tenant, the largest holder of grazing land and of timberland, the largest owner of grain, the largest warehouse operator, the largest shipowner, and the largest truck fleet operator.

As of March, 1953, government corporations and credit agencies had a total of \$2.6 billion invested in U. S. Government securities. They owned \$1.3 billion worth of commodities, supplies, and materials and held land, structures, and equipment valued at \$3.2 billion as well as \$936 million in cash.

The great argument of proponents of the government businesses is the claim that "the government can do it cheaper." Such facts as are available, however, point to the opposite conclusion. Indeed, even those government business operations which are apparently selling a product cheaper than private competitors, while at the same time showing a "profit," do not present a favorable comparison with private enterprise when measured by comparable cost-accounting techniques.

Because the government has the power to coin money and lay taxes, it can borrow at a lower rate of interest than can private firms. And government businesses are, of course, virtually exempt from all taxation. This tax subsidy is particularly dangerous because as the tax load on private operations increases, the cost "advantage" of public operations, being exempt, widens.

A particular operation may be more efficient under private than under public ownership for any number of reasons. For example, procurement policies laid

down by law are in many respects quite different from those which a private firm would follow, and the profit motive under private ownership is a powerful tool for cutting costs and reducing waste. Too, any government business operation must suffer from built-in political inefficiency by nature. A Congressional committee is, in the last analysis, the "board of directors" of a national government business enterprise—but it cannot function effectively as such. The Constitutional separation between the executive and the legislative branches of government results in a situation somewhat analogous to that which would obtain were the management group of a private corporation selected by and primarily responsible to one board of directors while subject to the decisions of a separate board on matters of finance—with policy guidance, frequently contradictory, coming from both boards.

No amount of reorganization or improvement in accounting technique or in personnel selection policy can ever overcome this basic difficulty of all national business enterprises.

Only the unrealistic doctrinaire advocates complete separation of government and business in airtight compartments. Such complete separation would reduce the efficiency of both the statesman and the manager. Each needs the other if he is to function most effectively. Some public business operations will continue to be necessary in the world of reality. Yet the economics and efficiency of the modern, capitalistic, competitive free market are such as to place the *burden of proof* upon those who advocate a particular public business activity.

There is every reason to suppose that

in future decades the national government will be conducting some business-type activities. These should, however, be kept at minimum levels—with "minimum" being defined in the light of economic, political, and technological circumstances of the particular time. Restraint must be exercised both by the bureaucrat and the citizen: the bureaucrat to refrain from reaching out for new worlds to conquer, and the citizen to refrain from inviting the government in to perform a rescue operation.

The tremendous momentum of the governmental juggernaut is such that, once started on a line of action, reversal of course is extremely difficult. The interest of the government employees involved is, naturally enough, to continue and expand the operation and thus assure the continuance of their jobs. The private citizens and business firms which benefit directly from the government operations are, also naturally enough, loath to see the government cease providing the service or product. On the other hand, the general taxpaying public has only an indirect and tenuous interest in getting the government out of any par-

ticular business in which it happens to be.

Furthermore, disposal by government of a particular business enterprise in which it is engaged is complicated frequently by considerations of public policy which are extraneous to the profit-and-loss calculations of private firms. Just because the government must and should consider such factors, it is undoubtedly always going to be easier to get the government into a commercial or industrial activity than out of it.

One of the most famous examples of this is reflected in the history of the United States Spruce Production Corporation. This Corporation, a national enterprise, was incorporated on August 20, 1918, to produce aircraft lumber for the United States and allied air forces. It began operations on November 1, 1918, and the war ended 11 days later. Nevertheless, the Corporation continued to exist and to require federal appropriations for many years after aluminum replaced wood in aircraft construction. In fact, it was not finally liquidated until after World War II. As late as 1946 it had a president, a secretary, a stenographer, and a chauffeur on the government payroll.

—*Government Competition: Problem and Perspective*. Chamber of Commerce of the United States, Washington 6, D. C. 20 pages. Single copies 50 cents.

FINDING ONESELF

FOR THIS IS THE JOURNEY that men make: to find themselves. If they fail in this, it doesn't matter much what else they find. Money, position, fame, many loves, revenge are all of little consequence, and when the tickets are collected at the end of the ride they are tossed into a bin marked FAILURE. But if a man happens to find himself—if he knows what he can be depended upon to do, the limits of his courage, the position from which he will no longer retreat, the degree to which he can surrender his inner life to some woman, the secret reservoirs of his determination, the extent of his dedication, the depth of his feeling for beauty, his honest and unpostured goals—then he has found a mansion which he can inhabit with dignity all the days of his life.

—JAMES MICHENER in *The Fires of Spring* (Random House)

Know Where Your Charity Dollars Are Going!

IT SEEMS THAT a man named Robert E. Hurst, of Memphis, Tenn., wanted to prove that people have an emotional spot when it comes to giving. So with tongue in cheek he distributed appeals on the streets of Memphis for contributions to the "Fund for the Widow of the Unknown Soldier." In no time at all he had collected a fairly substantial sum for his non-existent beneficiary.

This frequent blind willingness to donate has generated all kinds of schemes and trickery in the name of charity. Few communities are entirely free of the charity racketeers.

How do you spot them? First, you must know how they operate—how they manage to hide behind the skirts of worth-while and respected groups. Second, be familiar with their methods. They tend to concentrate on phone solicitations and on sending unordered merchandise through the mails.

Where can you check on a charity? The following are some suggested sources of information:

The National Information Bureau is a highly reliable charity screening group. It is supported by contribution memberships of from \$10 to \$1,000, and any individual, company or group can join. The bureau has a comprehensive compilation of most of the national charities and will tell you whether they meet minimum standards or not. Members have access to its complete reports. Its address is 205 East 42 Street, New York 17, N. Y.

Community chests, united funds, and councils of social agencies in 1,500 communities can help advise you on any type of appeal.

Contributors' information bureaus are a quick source of local information. A few cities like New York now have them.

Chambers of commerce are usually among the first to know when a phony charity hits town.

Better business bureaus can report on local charities. The Division of Solicitations, National Better Business Bureau, Inc., Chrysler Bldg., New York 17, N. Y., maintains a factual index of over 160,000 national charities and fund-raisers. As for some general do's and don'ts of judging a charity:

Do ask for an audited financial statement; request a copy of the organization's annual report of its activities; demand the names of the people actively supporting the charity; try to find out whether the board of directors exercises real control over the charity.

Don't contribute on the spur of the moment, but ask for a couple of days to think it over. Don't give to any group which sends unordered merchandise through the mails or give to a telephone appeal without asking that complete descriptive material of the charity be mailed to you first. Don't lend your name to any group without thoroughly investigating it first. And don't donate to any group which refuses to tell you how much it wants to collect, how much it spends for its program, and what percentage of its collections go to fund-raising costs.

—*Changing Times*, The Kiplinger Magazine 4/54

AMA GENERAL MANAGEMENT CONFERENCE

The General Management Conference of the American Management Association will be held on Monday, Tuesday, and Wednesday, June 21-23, at the Hotel Statler, New York.

TECHNOLOGICAL INSURANCE: A "MUST" FOR INDUSTRY

A FACT SOMETIMES overlooked by manufacturers today is that the technological developments which are the basis of industry are occurring at an ever-increasing tempo. There have been more advances in metallurgy in the last 10 to 20 years than in the previous half-century. The first real plastic, as we use the term today, was invented less than 50 years ago. Substances we now accept as common, such as cellophane and nylon, are less than 20 years old.

Probably the most spectacular example of this trend is the science of electronics. The basic electrical unit after which this science was named, the electron, was discovered less than 60 years ago. After 20 years of comparatively slow growth, this science gave us radio, and later such phenomenal advances as television, radar, new computers, and guided missiles. Today, with the new five-year-old marvel, the transistor, we stand on the threshold of a vast, unexplored technical wilderness which will in all probability yield results at a greater rate than ever before in history.

Viewing our present technological world is a little like watching a football game where the players are moving and the plays are called at a constantly increasing rate. Technical obsolescence for whole industries and individual companies takes place correspondingly faster than ever before. Whereas yesterday an industry or an individual manufacturer could plan on a relatively stable technological base for his business for a reasonably long time, compared to the amortization periods for his tools and other capital equipment, today the situation is changing much more rapidly. Any manufacturer who shrinks from a full realiza-

tion of these facts is truly flying in the face of Providence.

The method of approach to this problem, used by more and more managements today, is that of a systematic and properly balanced program of scientific research and development, geared to the specific needs of the enterprise and calculated to protect the technological basis of the business by keeping up with the forces of competition. The term "technological insurance" is appropriate to describe such a program, in view of the factor of protection inherent in it.

Technological insurance implies a carefully planned program of research, development, or engineering, tailored to fit the needs of the individual company. It is budgeted, like any other insurance program. It is an entity within the company—a department which is responsible for keeping management fully informed as to scientific developments which may affect markets, products and processes. It is also responsible for the application of scientific principles and developments to the design and production of new and different products, to the improvement of present products, and—most important—to the reduction of costs.

The average manufacturer is likely to regard research as too expensive. This thinking is quite common and is particularly typical of many small manufacturers. However, in view of the rapid technological developments taking place today, this attitude is giving way to a newer and more enlightened view of scientific research as an absolutely necessary form of company protection.

This trend—particularly among smaller and medium-sized companies—is illus-

trated by the fact that of all industrial companies reporting research and development laboratories in a recent nationwide survey, over half had less than 10 people so engaged. Furthermore, there are many more small companies where research or development work is done less formally, and the term "laboratory" is out of place.

There is no doubt that industrial research and development is expensive. It has never been more so. But the same thing applies to the other overhead expenses of running a business. And it is no longer safe for the manufacturer to say, "I can't afford research."

It is not always necessary or desirable to commit a company to the expense of large research equipment or an expensive permanent staff. Often a specific problem can be undertaken very capably by an outside establishment, such as a university, independent research company, or non-profit foundation or institute. Even

if it is the intention in the long run to establish a permanent research program within a company, it is often a good plan to start out by sponsoring several projects in this manner. There are many examples of companies who have profited handsomely by such a plan.

In planning technological insurance for the average manufacturing concern, management must face up to the fact that industries today come into being as a result of the efforts of a trained team of scientists and engineers, following a systematic program. No longer can management rely entirely for future developments on chance ideas occurring to some employee who has other responsibilities.

It is worth noting that practically without exception, all manufacturers who have established serious research and development programs, regardless of size, have continued such activities as a permanent effort in some form or other.

—WILLIAM W. EATON. *Connecticut Industry*, January, 1954.

FACTS YOU SHOULD KNOW ABOUT CONSULTANTS

FACED by increased competition, American business men are spending more money than ever before to get the advice of outside management consultants on such problems as marketing, cost-cutting, and labor relations. For many manufacturing companies, large and small, the hiring of these "business doctors" has become as commonplace as calling a lawyer to handle a case.

Today there are believed to be at least 15,000 firms and individuals known as consultants—about seven times as many as in 1940. They include specialized business consultants, such as industrial de-

signers, public relations counselors, accountants, college professors, etc.

The Association of Consulting Management Engineers, Inc., has just concluded a survey which shows there are 1,915 consulting firms offering their services in industrial centers of 100,000 or more. This list does not include the industrial designers, the publicity men, accountants, and several other classes of consultants which, the association says, "do not directly complement top management." ACME estimates that American business management spent nearly

\$426 million last year for the services of business consultants.

Robert W. Williams, executive secretary of the association, acknowledges that choosing the right consultant for a particular purpose is a real problem. In sizing up a particular consultant, Mr. Williams offers the following checklist:

1. How long has the consulting firm been in business?
2. What is the background of the partners?
3. What is the firm's financial status?
4. What companies has it served?
5. What do its clients say about the technical quality of its work?
6. How much of its business is "repeat" business?
7. How well does the firm get along with people—its own employees, as well as outsiders?
8. How much time do the principals (partners) spend on the job?
9. Has the firm had experience applicable to your problem?

10. Has the firm a recognized expert on your kind of problem?

Mr. Williams also warns against consultants who employ "high-pressure salesmen," or hint at dire consequences if their advice is not used. "Insist that the consultant tells you in writing precisely what he proposes to do, about how long it will take, and about how much it will cost, as well as what he thinks he will accomplish by doing it," he advises.

For the small business, the problem of weighing the probable costs of hiring a consultant against the potential benefits is a real one. Many small companies feel they cannot afford to pay the \$100 a day or more charged for each man by the best consulting firms, and they doubt whether the second-rate firms can offer real help. Billings of large consulting firms run as high as \$8 to \$11 million a year.

Today the most important problems being turned over to general management consultants involve the restoration of profit margins. Until this year, business men were usually seeking advice to improve the efficiency of specific departments.

—SIDNEY FISH. *The Journal of Commerce*, April 2, 1954, p. 1:2.

Nature Knows a Way

DOWN in Alexandria, Louisiana, they know a neat trick. Two men from the Louisiana Forestry Association are fooling pine trees to make them think they are going to die. It's done by tightening a steel band around the trunk.

When the tree is thus made to think it is going to die, it grows a lot of pine cones to perpetuate itself. The cones are then used for plantings, and the band is removed. How many times a tree can be fooled has not yet been determined.

Maybe here is the key as to why we may not have a depression after all. With so many business analysts and economists telling us we're in for hard times, maybe enough of us will get busy and begin producing and selling more efficiently in order to keep going.

Our extra amount of work and our more efficient methods will then offset what might have been a depression.

—Southwestern Advertising and Marketing

Guard Those You Love—Give to Conquer Cancer!

SYSTEMS—MASTER OR SERVANT?

TO SOME EXECUTIVES, "red tape" and "system" are synonymous. To others, "chaotic" and "unsystematic" have practically the same meaning.

The first of these widely opposed schools of thought includes managers who recoil from systematic actions as they would from an adder. To them, anything that requires a consistent approach to the solution of similar problems or to getting required work done is anathema.

Those who adhere to the second school of thought cannot face activities that require the slightest deviation from the straight and narrow path of the standard practice manual. They choose to ignore the exception, insisting that every procedure fit into a rigidly predetermined course of action.

Is there a satisfactory middle ground between these two viewpoints? Logic and successful experience point to an affirmative answer.

A system can be thought of as a means of assuring order in activities undertaken to achieve certain objectives. Since systems are the result of analysis, forecasting, and planning, they require for their conception a much higher order of intelligence than that used in managing by hunch and expedience.

Of course, there are those executives who are so enamored of procedural machinery that they spend all their time watching the gears mesh, hoping, or perhaps praying, for one little slip that they can correct in order to keep the system "perfect." Such people don't seem to realize that the man who can only tend a machine never gets as far as the man who designs it and plans and coordinates its work.

How then do we make and use systems to their best advantage? The first step is to amass all the available facts, opinions, hypotheses, and theories that can possibly assist in the achievement of objectives. These data should then be grouped in such a way that a forecast can be made of the course to be followed, the obstacles that can be foreseen, the elements that will contribute to success, and the steps that will have to be taken at each point.

On the basis of this forecast, a plan for action should be developed. This plan should then be examined from the point of view of simplification—that is, elimination of unnecessary or duplicated activity.

The next step is thorough indoctrination and instruction of every member of the team who will use the system. Each teammate must understand the "why, what, when, where, and how" of everything he is to do. Where possible, provision should be made for drilling in each assignment under actual or simulated operating conditions. In any case, the right way (i.e., the planned way) must become habitual for every participant.

Provision must then be made for adequate controls. This means that a method must be developed for bringing weak spots in the system to executive attention. At frequent intervals, achievement must be reported upon and steps taken to incorporate improvements in the original plan.

Finally, for maximum success, some plan of incentives, financial or non-financial, must be established to encourage team members to stick to the plan and make it work.

—SAMUEL L. H. BURK. *Systems Magazine*, Vol. XVIII, No. 1, p. 11:1.

Also Recommended • • •

THE AMBITIOUS CONSULTANTS. By Perrin Stryker. *Fortune* (9 Rockefeller Plaza, New York 20, N. Y.), May, 1954. \$1.25. An increasing number of companies welcome the help of management consultants on problems ranging all the way from office bottlenecks to top policy questions—but not many executives know how these management experts manage their own businesses. This report on an influential "growth industry," based in part on a survey of several hundred consultants and corporations, presents some relatively little-known facts about consultants' ways of getting business, professional methods, and earnings.

BUSINESS PARTIES . . . AND THE FREE LOADER.

By John Brooks. *Harper's Magazine* (49 East 33 Street, New York 16, N. Y.), April, 1954. 50 cents. The value of lavish business parties and the wisdom of allowing tax deductions for them is questioned here. When a piece of corporate information or a new product has real news value, the company or its public relations representative might more advisably call a press conference to which newspapermen would come without the inducement of food and drink, the author suggests.

HOW YOUR TOWN CAN AVOID RECESSION.

By William L. Batt, Jr., with Ronald Schiller. *Collier's* (640 Fifth Avenue, New York 19, N. Y.), April 30, 1954. 15 cents. Adopting a vigorous program aimed at broadening and diversifying the community's economic base is the only way a one-industry city or town can effectively protect its economic health, this expert asserts. He tells how four municipalities, each beset by a different type of unemployment problem, have attracted new industries by determined community action. Included with the article is a checklist of economic "danger signals" and a set of strategic principles for fighting a local recession.

MAN-HUNT FOR TOP EXECUTIVES.

By Robert N. McMurry. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), Vol. 32, No. 1. \$2.00. Generally speaking, management's efforts to cope with the shortage of top-executive material have been hampered, this author believes, by (1) too-great reliance on tests as tools for the selection of management candidates, and on the value of training programs as a means of producing leaders; and (2) prevalence in industry of the "autocratic-bureaucratic" philosophy of leadership. This article analyzes at length the type of per-

sonality needed for effective leadership of the "participative-consultative" type and offers some suggestions on how future top executives should be sought, recognized, and developed. Rather than attempt to develop the desired traits in up-and-coming executives, it is more practical, the author believes, to find the men who are already manifesting them.

WHAT THE FUTURE HOLDS FOR BUSINESS.

By Arno H. Johnson. *The Iron Age* (100 East 42 Street, New York 17, N. Y.), April 8, 1954. 35 cents. Instead of the widely predicted depression, the author's analysis of our present productive ability and consumer purchasing power points to the possibility of a 10 per cent increase in sales of consumer goods and services. Noting that only a 1½ per cent increase in consumer buying in 1954 is needed to offset defense cuts, Mr. Johnson shows how our expanding population, as well as our needs for new housing, plant, and equipment, can influence consumer spending for the next several years.

THE NATURE OF MANAGEMENT.

By Peter F. Drucker. *Dun's Review and Modern Industry* (99 Church Street, New York 8, New York), February, 1954. 75 cents. This discussion of management as an economic activity and a practice, rather than science or profession, explores three central problems: 1) the limitations of functional specialization; 2) the necessity of utilizing the present strengths of people for best economic performance rather than seeking those who have no weaknesses; and 3) the unique demands placed upon the manager to build an enterprise which will not only thrive in the short run but will survive in the future.

HOW TO PLAN AND BUILD YOUR BOMB SHELTER.

By Clarence E. Petzinger. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), March, 1954. 50 cents. An account of the planning and construction of the Cleveland Twist Drill Company's 80- x 250-foot underground bomb shelter, undertaken in connection with the construction of a new 5-story plant building. Constructed of heavily reinforced concrete and divided into six separate cells for extra safety, the shelter area—which can accommodate 2,200 persons—is unsuitable for production purposes but can be used for training, lockers, cafeteria facilities, etc. Utilities and supplies needed to equip a shelter of this type are listed and discussed.

Industrial Relations

DEVELOPING A CAMPUS RECRUITMENT PROGRAM

IF YOUR company is to get the maximum benefits from college recruitment, top management must be thoroughly sold on the program and prepared to follow through with the new men who are hired.

The general plan most likely to succeed will provide for the discovery and development of men with top ability among all employees, whether college graduates or not. College graduates may progress faster than others, but only if they have developed the necessary ability to produce on the job.

Careful job analysis will enable you to determine which jobs in your company require the level of ability or general background which college graduates are likely to have. Study recent turnover in these jobs and, in the light of anticipated expansion, if any, agree upon the approximate number of new employees to be hired during the coming year.

When should colleges be contacted? If you want to start a man in July you will probably interview him in March or April. A full year's recruitment plans are usually developed in October or November.

The number of colleges to be visited will depend, of course, upon the number of men to be selected and the size of the schools. Suppose, for example, that your company decides to employ 10 college graduates. Since the ratio of offers to acceptances is about 2 to 1 for non-technical men, the campus recruiter must select at least 20 men who meet his requirements. The ratio of interviews to offers is roughly 10 to 1. This means

that the interviewer must visit enough colleges to see at least 200 prospects.

In approaching a college, it is best to arrange a preliminary conference with the placement director well before interviewing season begins. After he has been informed of the company's general plans for recruitment, the placement director may have some valuable suggestions.

During this campus visit the company representatives can find out what interviewing dates are most convenient and what descriptive material concerning the company and the job the placement director desires. He can learn how the placement office operates and what procedures the interviewer will follow in dealing with the school.

What kind of descriptive materials are most effective in recruitment? The best booklets or other materials are those prepared especially for the purpose. In addition to general facts about the company and its products or services, these should contain full information on the following questions:

What opportunity does the company offer the graduate to learn and grow?

What has actually happened to the college graduates who were hired three years ago? Five years ago? Ten years ago?

What is the nature of the training program?

What is the policy of the company regarding promotion and salary increases when a man has clearly demonstrated his ability to progress?

College seniors are inexperienced and

often uncertain about their abilities. The interview is a big moment in their lives, and one for which many of them are poorly prepared. The interviewer must look beyond the man who sits in the interviewing room to the man he will be in five or six years. This calls for knowledge and skill of a very high order.

College contacts should certainly be centralized in one office. Centralization concentrates the experience in college recruiting in a few selected company representatives, and it allows the best interviewers to do the job.

There is no standard procedure for conducting the screening interview. Each interviewer must discover his own best approach and method. He is both buyer and salesman. Usually he has about 30 minutes with each candidate. At the end of that time he must decide whether to schedule further interviews or not. He may postpone the decision, but he will have had only 30 minutes in which to form a general opinion of the applicant.

Some interviewers rely on experience and intuition to guide them in questioning the applicant. Others conduct a "patterned" interview in order not to omit important items and in order to provide information which can be recorded, checked, and compared.

Applicants will generally fall into three categories:

1. Those in whom you are not interested and those not interested in the job. These should be so informed at the close of the interview.

2. Those in whom you are very much interested. These should be told that you plan to invite them to company headquarters for further consideration. If you can make the date right there, do it. If not, write the man in a very few days and send a copy of your letter to the placement bureau.

3. Those in the middle group. You want more time to consider these applicants in the light of others yet to be interviewed. These should be told that you will notify them of your decision within a stated period of time. *Don't fail to keep your word.* Send a copy of your letter to the placement bureau.

Some common recruiting practices which create problems for the college and should be avoided by recruiters are: (1) Expecting to arrange interviews on too-short notice; (2) cancelling the whole schedule a day or two before the interview date; (3) failure to plan the entire program far enough in advance; and (4) overhiring with the intent to weed out the poorest half in a few months. If you do this, word will get back to the campus and few candidates will be interested in interviews next year.

—FRANK S. ENDICOTT (Director of Placement, Northwestern University) in
Personnel Administration (The Dartnell Corporation, Chicago).

PAID HOLIDAYS: Nine out of 10 union agreements provide for paid holidays—six days (exclusive of Election Day)—in more than half of the contracts containing such provisions, says a recent Bureau of Labor Statistics study of 1,709 agreements covering six million workers. Manufacturing concerns allow more paid holidays than other businesses. Triple time is paid for work on paid holidays in 10 per cent of the cases; double time and one-half in 20 per cent, double time in 53 per cent.

—*Credit and Financial Management* 3/54

SHOULD REHIRED SUPPLEMENT RETIREMENT?

MANDATORY RETIREMENT at a given age—and in some industries there seems to be a trend toward retirement at 60—is the easy answer to management's responsibility to the aging worker. However, many thoughtful business men do not like this solution because it is too inhuman, and because they do not think it good economics. It seems poor social policy to retire automatically at 60 or 65 men with years of potentially useful work-life ahead of them when business is in sore need of experienced, self-supporting, self-reliant citizens, capable of helping to carry the world's work-load, of contributing to the nation's production, and of continuing to pay income taxes toward the support of government.

That intelligent answers to the problem of the aging employee will not be worked out during the next 10 or 15 years seems unthinkable. However, unconventional thinking and open-minded experimentation will be needed. Both employer and employee may have to compromise their "rights"—the employer his "right" to retire every employee at an arbitrary age, the employee his "right" to a particular job after his period of fullest usefulness to that job is past.

One variation is offered here, not as a completely satisfactory solution to the problem, but as a plan that calls for serious consideration right now, before we permit the pattern of retirement practice to become "set." It can be applied to the salaried group in business, as a starter, with the hope that, if successful, it might ultimately filter down through all work-levels.

First of all, let some age—whether it be 60 or 65—be selected as the retirement age.

When a man reaches this age, whether he be chairman of the board, president, department head, manager, superintendent, foreman, supervisor or salesman, it would be understood that, so far as the job he then fills is concerned, he will be automatically retired. However, if he prefers to stay on with his company, he would then be considered for *rehirement*. If a physical examination shows that he can continue working, he might then be offered another and less arduous job or assignment, or given some entirely different type of work, at whatever fee or salary that particular job can reasonably support. Since men usually do not require as large an income at retirement age as they formerly did, a downward adjustment in compensation will not usually work undue hardship.

The big, human, socially significant fact is that the man who is rehired will still be a busy and self-respecting citizen with a sense of usefulness. Furthermore, he will be available to carry responsibilities that may be crying for experienced handling, possibly at the same time training young men to take over.

For example, a retiring department head might be rehired to manage a less important department, or to organize a sub-department where his long experience and seasoned judgment would be particularly valuable.

A retiring executive with ability to teach others might be rehired for training work, where he could make a valuable contribution to the future welfare of the business.

A retiring salesman with a large territory, or a territory of special importance to the business, might be rehired for a smaller or less important territory, or to

concentrate on the promotion of some particular line or product needing special attention.

Note that the emphasis in each case is on a regular job or responsibility, rather than a "consulting" arrangement or some manufactured assignment with little or no responsibility. Such arrangements, presently so popular, are seldom of great value to the business; for unless he is in almost daily contact with what is going on, both inside and outside the company, even the ablest man soon loses touch, in this fast-moving and highly competitive age. He is likely to find that he is not being consulted, or that the advice he volunteers is not taken too seriously, with the result that he gets no mental or spiritual satisfaction out of the arrangement.

Critics may object to the whole rehirement idea as being discriminatory, since (assuming a man wants to stay on in a job or assignment of less responsibility) the decision as to his rehirement rests with his employer. To insure fairness it may be necessary to set up an impartial committee of review and recommendation to pass on all cases and to decide on behalf of the management whether there is a place in the business where the man can really earn his salt. This committee would, presumably, function under the personnel director, and be made up of representatives from various departments or segments of the business. In the case of top executives, a committee of the board of directors might assume responsibility.

At an appropriate time—perhaps a year or two before the actual retirement date—each retiree might be invited to sit with the committee and discuss his impending retirement. If he expresses a desire to stay on, the rehirement idea would be explained to him in detail, with emphasis

placed on the fact that no one can be retained except on the basis of a regular job or assignment. He might be shown the set of standards used by the committee to determine availability for rehirement so that he will understand that sentiment and influence are definitely "out" as a basis for rehirement.

From then on the situation would be handled on its merits in each case, with the committee consulting the retiree's superiors and associates and making an earnest attempt to find a useful niche for the man. In the end, the responsibility would be theirs to recommend retirement or rehirement.

If a retiree were rehired, the same committee would review his case yearly and make the decision as to whether he is to be continued in his job, moved into some other job, or asked to leave the company.

Admittedly, rehirement as a supplement to retirement is neither an easily worked out nor a completely satisfactory solution to the problem of the aging employee. There will be many who cannot or should not be rehired because of failing health, lost efficiency, or a sour attitude toward accepting rehirement. Also, men cannot be expected to work forever; there will come a time with nearly every man when rehirement must cease.

To make rehirement work as a personnel policy—to keep rehiring men year after year and employing them usefully and profitably as they advance in years—will require all the ingenuity and good will that management can muster. On the rehires' part it will call for a major adjustment in attitude. But might not the resulting good, to business and to the individual, be worth all the trouble it would entail?

—ROBERT D. UPDEGRAFF, *Dun's Review and Modern Industry*, Vol. 62, No. 2307, p. 51:6.

What Do Workers Want Most?

THE AVERAGE foreman says that good wages, job security, and promotion are his workers' basic desires.

Workers rate full appreciation of work done, feeling "in" on things, and sympathetic help on personal problems as their chief wants. But foremen say these are the least of their workers' job goals.

These are the findings of a spot survey conducted by *Foreman Facts* in 24 industrial plants. Foremen were asked to rank the 10 key factors listed below in the order of their importance to workers. Then workers in the same plants were asked to do the same. When the two lists were matched, these were the results:

Job Goal	Ranked by Workers	Ranked by Foremen
Full appreciation of work done	1st	8th
Feeling "in" on things	2nd	10th
Sympathetic help on personal problems	3rd	9th
Job security	4th	2nd
Good wages	5th	1st
"Work that keeps you interested"	6th	5th
Promotion and growth in company	7th	3rd
Personal loyalty to workers	8th	6th
Good working conditions	9th	4th
Tactful disciplining	10th	7th

—*Foreman Facts* (Labor Relations Institute, 11 Hill Street, Newark 2, N. J.) Vol. 9, No. 21

"Moonlighting"—And What Companies Are Doing About It

WITH JOBS becoming scarce in some areas, companies may be getting complaints from unions on "moonlighters"—people who work one shift at their firm and then put in another shift elsewhere.

Associated Industries of Cleveland recently asked 30 employers how they felt about this practice. About half of those questioned said they are flatly opposed to the idea; any employee discovered to be "moonlighting" is required to choose between his two jobs. An almost equal number, though, have no objection to the practice as long as the employee's attendance and production don't suffer.

One firm reports that it decides each case on its merits: If the man is a good worker and has illness in his family or needs extra money for some good reason, the company will go along with him as long as his job performance is up to standard.

—*Labor Policy and Practice* (Bureau of National Affairs, Inc.) 3/4/54

COMIC-BOOK RECRUITMENT: General Electric took a long look into the future and its need for engineers. One conclusion: Many young people, potentially good engineers, were overlooking engineering as a career. How to reach them? Well, kids read comic books, so GE prepared *Adventure Into the Future*, a four-color comic which describes the opportunities ahead in engineering, and how to prepare for them. So far, 3 million high school pupils have read the book, and science teachers are demanding more. (Further information is available from the Public Relations Services Division, General Electric Co., Schenectady, N. Y.)

—*Changing Times*, *The Kiplinger Magazine* 1/54

COMPENSATING THE FIRST-LINE SUPERVISOR: A SURVEY

ALTHOUGH the first-line supervisor is the lowest rung in the managerial ladder, he nevertheless most directly symbolizes management to the great majority of employees comprising the rank-and-file. The relationship between first-line supervision and rank-and-file is therefore of paramount importance, particularly with respect to earnings.

The consensus of 196 personnel executives participating in a recent Bureau of National Affairs survey is that first-line supervisors should receive a considerable differential over the employees whom they supervise.

First-line supervisors are guaranteed at least a minimum percentage more than the highest-paid employees under them in approximately 25 per cent of smaller companies and 15 per cent of larger firms covered by the survey. In another 10 per cent of larger companies, minimum percentage differentials, while not actually guaranteed, are almost invariably the practice.

In both larger and smaller companies, the average (median) guarantee to first-line supervisors is 15 per cent above the earnings of the highest-paid employees supervised. In the typical company which guarantees a supervisory differential, supervisory earnings are 5 per cent higher than guaranteed earnings.

In actual practice, first-line supervisors in nearly all companies do earn considerably more than the highest-paid employees whom they supervise. The average (median) first-line supervisor earns 20 per cent more than the highest-paid employee working under him.

Among companies with unionized employees, approximately 70 per cent of the larger ones and 60 per cent of the smaller

ones make an adjustment in first-line supervisors' pay whenever rank-and-file employees gain an increase through collective bargaining.

In the remaining companies with unionized employees, the differential is maintained through merit reviews. In non-unionized companies, meanwhile, the general practice is to include first-line supervisors in any increases going to rank-and-file employees.

In the great majority of companies, extended overtime is frequent and poses the problem of maintaining the supervisory differential. First-line supervisors are paid for each hour of overtime which they work—usually either at straight-time or time-and-one-half—in roughly 55 per cent of both larger and smaller companies. In another 5 per cent of companies, special bonuses are paid; in 15 per cent, the differential is preserved by adjusting the supervisor's salary within the rate range, or by adjusting the rate range itself. Other practices include giving compensatory time off and equalizing overtime among all supervisors.

Only in about 15 per cent of larger companies and 10 per cent of smaller ones is any attempt made to maintain the supervisory differential during periods of extended overtime.

How much does the average first-line supervisor earn per year? Figures from 94 different companies submitting usable data on this question indicate that median earnings of office supervisors range from \$4,680 to \$7,000, while median earnings of factory supervisors range from \$5,000 to \$7,000. The earnings picture for supervisors is roughly comparable in all companies regardless of size.

Comparison of supervisory earnings on

a regional basis shows that first-line factory supervisors' earnings tend to be highest in Western states and lowest in Southern states.

The average first-line supervisor in a factory supervises at least as many employees as his office counterpart. Office supervisors in both larger and smaller companies supervise 10 employees, on the average, while factory supervisors supervise an average of 20 employees in larger companies and 25 employees in smaller firms.

The number of employees supervised has no effect on earnings of first-line supervisors, according to two-fifths of both larger and smaller companies. In most of the remaining companies, the number of employees supervised is given a certain amount of weight in determining supervisory earnings, but is always considered along with many other factors—such as the amount of responsibility involved, the nature of the work, and length of service.

One out of every eight companies has

—*Personnel Policies Forum Survey No. 22* (Bureau of National Affairs, Inc.), 1954.

an incentive pay plan for supervisors. Of these plans, roughly one-half are of the cost-improvement type—that is, bonuses are computed as a percentage of savings under budgeted costs. One-fourth of all plans offer bonuses based on sales volume, while the remaining one-fourth base bonuses on volume of production.

Special bonuses—other than incentive payments or compensation for overtime periods—are given to first-line supervisors in roughly 20 per cent of larger companies and 30 per cent of smaller ones, the BNA survey findings indicate. The lowest year-end bonus to first-line supervisors was reported as half of one week's salary, while the highest bonus reported amounted to approximately 20 per cent of the supervisor's gross annual earnings.

In some companies length of service of employees is taken into consideration as an additional factor in determining the amount of year-end bonuses. In others, individual merit is the prime factor.

SEEING EYE-TO-EYE WITH YOUR UNION

HOW CAN labor and management get along without constant struggle for the upper hand?

Some seven years ago, the National Planning Association—made up of industry, labor, and farm members—decided to look into the problem from a different angle. Where previous studies had examined labor-management strife and its causes, NPA felt that better clues might be found where such strife was avoided—where industrial peace had been established and maintained.

Thirty such cases were studied, and the

findings published separately. Now, in a final report, the NPA has come to some conclusions on the causes of industrial peace. In each case studied, it reports, the following factors were important in keeping the peace between management and labor:

1. Full acceptance by the management of the collective bargaining process and of unionism as an institution. The company considers a strong union an asset to management.

2. The union fully accepts private ownership and operation of the industry.

It recognizes that the welfare of its members depends upon the successful operation of the business.

3. The union is strong, responsible, and democratic.

4. The company stays out of the union's internal affairs.

5. Mutual trust and confidence exist between the parties.

6. Neither party to bargaining has adopted a legalistic approach to the solution of problems in the relationship.

7. Negotiations are "problem-centered"; more time is spent on day-to-day problems than on defining abstract principles.

8. There is widespread union-management consultation and highly developed information-sharing.

9. Grievances are settled promptly, in the local plant whenever possible. There is flexibility and informality in the procedure.

On the question of how these friendly conditions are achieved, NPA found that several attitudes common to both parties are important to a good relationship.

First, in the studies there were repeated references to feelings on the part of management and union: "good faith," "sincerity," "good will," "mutual trust," "confidence," and "fair play." Both sides seemed able to predict actions and reactions with reasonable certainty.

Second, there were repeated indications that both sides felt their relationship benefited both sides. The companies generally were making good earnings. Workers' wages seemed to be at least average—either for the community or industry. And benefits compared favorably with those secured in other companies by rival unions. Union-management cooperation developed in some cases

where companies faced economic crisis, showing that even under adverse conditions experience gained in successful collective bargaining will enable both parties to face new problems with greater realism and keener insight.

Third, the use of force in the event of failure to agree was potentially present in all the cases. But the parties showed a preference for, and became skillful at, reaching intelligent compromise.

Moreover, in nearly every case studied, both management and labor were primarily interested in solving specific problems rather than in defining rights and prerogatives.

One characteristic management attitude found in every case was positive acceptance of the union and of collective bargaining. In each instance the employer saw positive advantages in bargaining with a strong and well-disciplined union—and took steps, directly or indirectly, to encourage workers to join and support the organization which represented them. Beyond that, the companies stayed out of union affairs.

Second, management recognized the difference between the characteristics of a union organization and those of a management organization. The "political" relationship of union leaders to rank-and-file members was necessary. They had constantly to be on the alert to actions by rival unions and the possibilities of factionalism. Unless management does take into account these differences, it is heading for certain disillusionment in the relationship, and will force the union into defensive reactions.

Third, management accepted personnel administration—the management of the human organization—as the "top drawer" responsibility of every member of line as well as staff management.

Fourth, management's attitudes toward workers reflected genuine recognition of their needs and feelings, and confidence in their value to the company.

As for the union side of the picture, the NPA concludes that attitudes of union leaders and members influence the relationship in three ways:

1. They must recognize management's objectives in running the business profitably. The unions' concern for the companies' competitive and profit positions was realistic and hard-boiled. They knew that the union as an institution and the job interests of its membership depended upon the economic success of the business.

2. The unions in these studies accepted management's responsibilities to the owners in running the business. But the controversial question of "management's rights to manage the business" had

been avoided, mainly by management's willingness freely to discuss facts and its position with the union. The unions studied in these cases were strong, democratic and responsible.

3. An attitude of confidence in management's good intentions and competence seems to be essential.

An efficient and well-functioning grievance system is also vital for good relations, NPA found. In the cases studied, grievances were settled promptly, usually in the local plant, and procedures were informal and flexible. In most cases, the parties used the grievance machinery for additional functions—to prevent future grievances, and to bring up opportunities for joint discussion of many issues beyond the scope of customary collective bargaining.

—*Mill & Factory*, March, 1954, p. 135:2.

Women as Industrial Workers—Fact vs. Fancy

MORE THAN 15 million women in the United States are employed outside their homes. They labor almost everywhere, from foundry to corporation president's office; yet many employers have little factual knowledge concerning their physical and emotional suitability for production work.

While most measures which protect men from injury will also protect women, it is unwise and dangerous to assign industrial jobs to either sex indiscriminately, according to a survey report recently published by the National Safety Council.* Three main facts should be borne in mind by the employer: assigning women workers to heavy jobs should be avoided unless mechanical materials-handling devices are installed to help them; guards may need adjustment to make their safe and efficient operation by women possible; a pregnant woman may need to be taken from a job which involves even minimum exposure to toxic substances.

The book debunks many prevalent misconceptions about women in industry. Here are some examples of these "myths":

That women are more susceptible to dermatitis; that women are more likely to have accidents; that women are more subject to fatigue; that women lack mechanical ability; that women have greater dexterity; that women are especially good at monotonous work; that women work only to buy luxuries; that women do not work out well in industrial situations.

* *The Woman in Industry*. Available from the National Safety Council, 425 North Michigan Avenue, Chicago 11, Ill. \$5.00.

Also Recommended • • •

PSYCHOLOGICAL FACTORS IN INDUSTRIAL ACCIDENTS. By Leonard E. Himler. *Michigan Business Review* (School of Business Administration, University of Michigan, Ann Arbor, Mich.), March, 1954. Gratis. In the author's opinion, the best industrial safety programs today have progressed so far in the control of environmental hazards that emphasis is inevitably shifting to the personal and individual causes of accidents. Reviewing the facts already exposed by psychological research, this article charts the areas which remain to be explored, giving particular attention to the interpersonal aspects of accidental injuries and to the value of psychological survey techniques as a research tool.

THE SCANDALS IN UNION WELFARE FUNDS. By Daniel Bell. *Fortune Magazine* (9 Rockefeller Plaza, New York 20, N. Y.), April, 1954. \$1.25. Flagrant abuse of union welfare funds (instances of which are described here) would stop if each fund were required to publish a breakdown of its administrative costs and if each insurance company were to publish the percentage of premiums it retains and the commissions it has paid. Moreover, the author maintains, a fund should be able to place its business directly with an insurance company without paying commissions. Finally, it is management's prime responsibility—since management bears the cost—to see that a fund is run efficiently.

HOLIDAY PROVISIONS IN UNION AGREEMENTS IN 1952-53. By Abraham Weiss and Dena G. Wolk. *Monthly Labor Review* (Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.), February, 1954. 55 cents. Nine out of 10 union agreements now provide pay for holidays, 53 per cent of them granting six holidays in all, this article states. It also shows the prevalent rates of pay for work on paid holidays, the eligibility requirements for holiday pay, and pay for holidays which are not scheduled as workdays.

FOREMEN—KEY TO WORKER MORALE. By Arthur N. Turner. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), Vol. 32, No. 1. \$2.00. Based on the findings of a series of Yale research studies, this article quotes extensively from interviews with 400 production workers, 80 foremen, and all production general foremen and superintendents in two large automobile assembly plants to illustrate the factors governing the climate of foreman-worker relationships under the intensified conditions of

the assembly line. The findings seem to show that workers' behavior tends to reflect their foremen's assumptions about them; that the most successful foremen genuinely care about the welfare of their men; and that one way management can help the foreman improve his relationship with his men is by reducing the pressures under which he must work.

TOUR OF COST REDUCTION SHOW AT CHAMBERS WORKS. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), February, 1954. 50 cents. To encourage employees to help reduce costs, the Chambers Works of E. I. du Pont de Nemours at Deepwater, N. J., set up 10 separate exhibits—illustrating 63 cost-saving ideas—which are described here with information on how the show was organized. The cost of the show, (around \$20,000) can be repaid by one good new suggestion, the article points out.

CAN ALL OPERATIONS BE PLACED ON INCENTIVE? By Wilmer C. Cooling. *Mill & Factory* (205 East 42 Street, New York 17, N. Y.), March, 1954. 50 cents. Citing examples from his own company, an electrical manufacturer, the author discusses four types of incentive standard that can provide an incentive pay plan with the flexibility necessary to maximum job coverage. These are 1) the ordinary production standard; 2) the additive standard, used where an added constant amount of work renders the time allowed for the production standard inadequate; 3) the combined production standard, applicable where two or more tasks with established production standards are combined; and 4) the elemental production standard, used where the elements of the operation are constant but vary in frequency of occurrence.

WHAT'S INDIRECT LABOR WORTH? *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), April, 1954. 50 cents. A useful chart, compiled from Bureau of Labor Statistics data, showing average straight-time hourly earnings (including incentive pay but not overtime or night-shift earnings) in eight cities (Dallas, Denver, Detroit, Minneapolis-St. Paul, New Orleans, Newark-Jersey City, Philadelphia, and Portland, Ore.) for 14 different maintenance and power-plant jobs and 14 custodial, warehousing, and shipping jobs. Also shown are average weekly earnings of draftsmen, industrial nurses, and nine classifications of female office employees.

Office Management

OFFICE PERSONNEL PRACTICES: A SURVEY

SOME INTERESTING insights into the pattern of company approaches to office personnel administration were provided by a recent survey of personnel practices currently in use by 769 firms in their New York offices. One hundred or more office workers are employed by 433 of the respondent firms.

There is a marked tendency in larger companies to center responsibility for personnel in an executive who has this as his principal function, the survey disclosed. Replies from companies employing 1,000 persons or more in all their operations indicate that about 233 companies have an executive whose main function is personnel, while in about 37 of the companies personnel is handled by an executive whose main responsibility is in other fields. Of the companies employing fewer than 1,000 persons over-all, only 139 appear to have executives whose main function is personnel, while in about 335 of these companies personnel is handled as a less-than-principal function of executives with other duties.

Titles most frequently listed for persons in charge of personnel administration were, in companies employing 100 or more: Personnel Manager, Personnel Director, Vice President, Director of Personnel, Office Manager, Director of Industrial Relations, Secretary, Manager of Industrial Relations, and Vice President—Industrial Relations. In companies employing fewer than 100, the person in charge of personnel administration was most frequently the Office Manager.

Participants in the survey were asked whether they used any type of aptitude or other psychological tests in employing office personnel, and, if so, which ones. Forty-nine per cent of companies employing over 100 office employees reported the use of such tests, while only 16 per cent of those employing fewer than 100 used them. Among the former the tests most frequently used were the Wonderlic (used by 57 companies); a "typing test" (used by 53); a "stenography test" (used by 41); a "clerical" test (used by 41); the Minnesota Clerical (used by 37); an "aptitude test" (used by 18); a "psychological test" (used by 13); an "intelligence test" (used by 11); and the Otis Mental Ability test (used by 11).

A formal job evaluation plan for administrative and clerical jobs was used by 58 per cent of those firms employing 100 and over and by 27 per cent employing fewer than 100. A breakdown made between those firms with less than 1,000 employees in the entire company and those with 1,000 and over, indicates again the influence of total company size. Whereas 44 per cent of the 750 companies replying to this question indicate they have formal job evaluation plans for their clerical and administrative positions, only 30 per cent of the firms with fewer than 1,000 total employees, as compared with 65 per cent of the companies with over 1,000 employees, have such programs.

Information on several other personnel

practices emerged from the survey. It was discovered, for instance, that 61 per cent of those firms employing over 100 employees distribute a statement or booklet setting forth their personnel policies and practices. Fifty-six per cent of these organizations publish a company house organ or employee publication for their office staffs; 97 per cent maintain individual personnel folders containing pertinent information about the employment of each person working in their offices; 31 per cent have formal employee induction and

job training programs for their office employees; and 38 per cent operate a suggestion system for their office personnel.

Office employees are represented by a labor organization with collective bargaining rights in 22 per cent of these firms. The position or title of the person representing these companies in collective bargaining with the union is, in order of frequency: Vice President, Personnel Director, Personnel Manager, Manager of Labor Relations, and Labor Relations Director.

—*Personnel Management Bulletin* (Commerce and Industry Association of New York, Inc.)

WATCH OUT FOR BOOTLEG FORMS!

FORMS MAY or may not represent efficiency, but one thing is certain—they do represent work and expense. The 150,000 typewriter strokes per day that a typist expends is on forms—letterheads, purchase orders, shop orders, invoices, reports. The 1,800 papers that a file clerk sorts in a day are all printed forms.

If forms represent work, and work that is usually regarded as "overhead," then we must give careful attention to the basic need for the form, to its design, to its use. All this adds up to the need for "forms control"—a function that is not always popular, because it forces people to think. Some regard it as an obstacle and, rather than alter or do without a form they have become attached to, will attempt to "bootleg" it.

The average bootleg form is a poorly designed, messy instrument, and it usually requires *more* work to process than does the average official, approved form. The bootleg form is almost always a product

of the "private" duplicating machine. Forms Control gets no chance to analyze it.

During World War II, a management consultant who had surveyed many plants working under war contracts made this startling statement: "After examining thousands of bootleg forms that I have discovered in my survey work, and checking on the hours required for their use, I find that it takes an average of only 11 bootleg forms to create one full-time job!"

The number of bootleg forms used in a department are almost a sure-fire indication of the caliber of supervision in charge. The experienced cost-conscious supervisor knows how important it is that each form, each record and report be given careful attention before it is added to the system. The inexperienced supervisor, or one who has never learned of the importance of forms, will allow or even encourage the introduction of a great number of bootleg forms into the

systems under his jurisdiction. As a consequence, his operation fumbles through a chaotic mass of red tape.

In this connection we cannot overlook the responsibility of higher management. In making an "office" man a department head, management often asks only that the man be able to handle people and be thoroughly familiar with the function he is to supervise. Rarely is it asked: "Is this man capable of setting up his systems, of designing his forms, and controlling the records and reports which will be his tools?" Rarely are his administrative abilities in this area closely scrutinized.

In any "office" department, the bootleg form can be regarded as a symbol of the failure of the supervisor to handle the paper phases of his operations. The boot-

leg form is rarely coordinated, is hard to use, slow to transcribe from, and difficult to file and rarely indeed is there a written standard covering its proper use.

In some instances, the bootleg form will carry information that is in reality important, yet its existence may not even be known to management. Since little or no thought was given to the final disposition of the bootleg form, it becomes a headache for records management and increases costs here. What to do with the information on these forms? It will cost money to find out.

The elimination of the bootleg form can be accomplished only through education of office supervisors, so that they finally understand that forms do represent work—and bootleg forms are by no means an exception!

—LESLIE H. MATTHIES. *The Office*, Vol. 39, No. 1.

White-Collar Unionization: New Campaign Ahead?

CITING a Gallup Poll survey to the effect that "70 per cent of the white-collar workers in this country now approve of unionization," Howard Coughlin, President of the Office Employees International Union (AFL), recently outlined some of his union's present organizing plans in response to what he terms "the awakening of office and clerical workers to the desirability and need for union organization and collective bargaining." Writing in the *American Federationist* for March, Mr. Coughlin points out that union campaign plans, now underway, will put three times as many international organizers in the white-collar field this year as were active a year ago.

White-collar workers are more sympathetic to the idea of unionization now than they have been in the past for a number of reasons, in Mr. Coughlin's view. One of these is increased mechanization in the office. "The tabulating machine, book-keeping machine, reproducers, mechanical filing systems, and now electronic computers and translators are gradually regimenting the office force and doing away with individualistic feelings which existed heretofore," he declared.

"Second, the skilled and non-skilled manual workers' unions have caught up with and in many cases exceeded the fringe benefits which white-collar workers enjoyed historically. For many years, employers pointed to the fact that clerical employees had sick leave, paid holidays and vacation provisions, which the manual worker at that time did not enjoy. Such is not the case today. The clerical employee now finds himself in the position of having lost his fringe-benefit advantage while still at the bottom of the wage heap."

A related factor which he feels will militate toward increased white-collar union membership is "the constantly widening gap between the higher-paid manual workers

and the lower-paid clericals. Moreover," declares Mr. Coughlin, "the employer has wrecked his own anti-union arguments by aligning himself with employer associations for collective bargaining and other economic purposes."

Tracing the growth of his union in the eight years of its existence, Mr. Coughlin reports that the OEIU now has more than 220 local unions of white-collar workers in the United States and Canada, has passed the 50,000 membership mark, and "is advancing in all parts of this country and Canada."

Office Merit-Rating Policies—A Survey

WHILE merit-rating is widely acknowledged to be an equitable method of determining clerical salaries, administrative problems discourage its use in many offices.

Formal merit-rating programs are in use in 61 per cent of the companies responding in a recent survey conducted by the Chicago chapter of the National Office Management Association. A few of the remaining companies have informal plans. Almost half of the formal programs have been in effect for more than five years.

Merit reviews are held semi-annually in 48 per cent of the companies; other firms hold them quarterly, annually, or on employee anniversary dates. Over 70 per cent have special merit reviews during the probationary period; 20 per cent consider a review worth while at time of termination.

All the respondents with merit-rating plans use them as the basis for salary increases; 88 per cent of the plans are also used for promotion. The majority of firms rate on 10 factors: ability, judgment, leadership qualities, job knowledge, attitude, dependability, attendance, punctuality, personality, and appearance.

The merit ratings are completed in one-third of the cases by the employee's immediate supervisor. The remaining companies show a variety of job titles. Discussion of the merit ratings with employees is required in just over half of the companies, optional in the remainder. One-third of the companies make tests to determine the validity of merit ratings, but the methods used vary widely.

In 18 companies, the office manager is responsible for installation of the merit-rating plans as well as for active participation in actual reviews, scoring, analyzing of the results and other details. In eight companies, he is responsible for the installation plus occasional checking on its operation. In two companies, he is responsible only for installation of the program. Nine additional companies report that, in the absence of an office manager, merit-rating functions are performed by the personnel department.

—A. H. GAGER in *Office Executive* 2/54

"Your Three Minutes Are Up!"

A CHECK of your company's telephone bills is likely to show that excessively long calls—rather than simply the number of calls—is the thing that can really run up the expense.

Of course, the operator can be asked to break in at the end of three minutes—the way they did during the war. But this tends to irritate people and may leave a poor impression with customers and other callers.

Motorola Company decided that the time-honored nasty memo from the controller's office was also the wrong way to tackle the problem. Instead, Motorola injected a bit of humor into the situation by sending each company executive a three-minute egg timer to put on his desk, for use when making long-distance phone calls.

Nobody was offended, and really important calls are not interrupted. But the "sands of time running out" are a constant reminder that it's a good idea to stick to the subject—at a dollar a minute.

—*Factory Management and Maintenance* 4/54

USING MICROFILM FOR CURRENT ACCOUNTS

THE CONSTANT accumulation of space-consuming records is a continuing problem in almost every office, and has led many organizations to the use of microfilm for transfer of original records after a stated period of time. But some companies have made microfilm an integral part of their record system at the initial stages of paper work. The Carborundum Company, for example, has provided the final touch toward rounding out a smooth, rapid, and efficient accounts receivable system with microfilm.

Key to the over-all system is a centralization of work in the head offices at Niagara Falls. As part of the Treasurer and Controller's Division, the accounts receivable and microfilm departments prepare and retain all receivable records for Carborundum's divisions and subsidiaries in the U. S. and Canada. Annual sales volume for the company is from \$75- to \$85 million.

To handle the receivables work, Carborundum has seven billing machines which can compute and prepare a complete invoice as rapidly as it normally takes just to type it. Four posting machines handle statements and ledgers, one accounting machine is used for cash sheet distribution, and microfilming equipment is applied to records retention.

When the company's microfilm program was installed in 1950, its original purpose was to relieve record storage problems. While the equipment was serving this purpose, it was decided that the microfilming of current accounts receivable records would prevent their accumulation into loads that threatened to become a storage problem.

Accordingly, the bookkeeper's copy of invoices and all debit and credit memor-

anda are now microfilmed, with the original copies being retained from three to six months. They are then destroyed, and the microfilmed images become the company's official records for the legally required seven years. About 2,100 invoices are prepared each day. In 1951 some 698,000 invoices and in 1952 another 682,000 invoices were photographed.

Cash received slips also are microfilmed, with the original copies being destroyed after from three to six months and the microfilmed copies being retained for seven years. Original accounts receivable ledgers are kept for a year before being destroyed, and the microfilmed images are retained for the additionally required six years.

Around 1,000 remittance advices and 1,500 merchandising credit memos are received monthly—which means that about 62,000 accounts receivable items are systematically microfilmed and disposed of each month.

All film is filed in one nine-drawer cabinet which houses 108 rolls of film per drawer. The millions of records, representing three years of activity, have filled slightly over half of the cabinet.

An additional example of Carborundum's efforts to increase efficiency is the unique method developed for handling remittances.

When a customer's envelope containing a check in payment for an invoice is received in the treasurer's office, the check is removed and the face of the envelope is rubber stamped. The amount of the remittance plus any additional information is then written into a space on the stamped area.

A listing of the checks produces a total which is used for the bank deposit. A listing of the amounts on the envelopes proves the envelopes' total against the deposit.

The envelopes and a duplicate copy of the tape are sent to the accounts receivable department where the total on the tape is recorded in the cash receipts journal.

The envelopes are then sorted alphabetically by controls, passed to cash checkers for keying off against the customer's ledger, with the checker writing in the discount amount and the gross amount applied to the account.

The cash sheet showing distribution by controls is then run off and establishes a

—Office Management. March, 1954, p. 36:1.

predetermined control figure which later is used to balance the postings to accounts receivables.

Using the envelopes as media, the accounting machine operators then post the customers' ledgers.

After all controls have been summarized, then balanced against the amount charged by the treasurer's office, the envelopes are microfilmed.

This method allows the treasurer to prepare bank deposits as rapidly as remittances arrive. It also minimizes work by eliminating the rehandling of remittances, permits financial reports to be prepared rapidly, and prevents the envelopes from accumulating and becoming a storage problem.

Also Recommended • • •

WHEN TYPING WAS IN FLOWER. By Bruce Bliven, Jr. *The Atlantic Monthly* (8 Arlington Street, Boston 16, Mass.), May, 1954. 50 cents. The advent of the typewriter on the American scene opened for the working woman the way to office employment, a field previously reserved for men. How best to operate the new gadget was hotly debated, and interest in contests between the two-finger and ten-finger factions was intense. This light-hearted account of the great era of typewriter speed contests provides some amusing sidelights on the development of "the wonderful writing machine" and the techniques for using it.

AMERICAN MUTUAL'S OFFICE SAFETY PROGRAM. By Ellen M. McAinsh. *The Office* (270 Madison Avenue, New York 16, N. Y.), March, 1954. 25 cents. Most of this article is devoted to a comprehensive list of dangerous conditions and practices that the American Mutual Liability Insurance Company has tried to eliminate in its offices through regular periodic inspections. Among the hazards mentioned: sharp burrs on metal filing cabinets, rickety typewriter stands, electric cords strung between desks, and flammable type-cleaning fluids.

IS IT BETTER TO OWN OR LEASE OFFICE EQUIPMENT? By George W. Downie. *The Office* (270 Madison Avenue, New York 16, N. Y.), March, 1954. 25 cents. A detailed hypothetical case involving rental vs. purchase of a battery of calculating and accounting machines is used to support the author's contention that the leasing method is more economical than outright ownership—except over a long period of years approaching average useful life.

EMPLOYEE SELECTION—AN IMPORTANT ELEMENT OF CLERICAL COST CONTROL. By E. R. Eberle. *The Edison Electric Institute Bulletin* (420 Lexington Avenue, New York 17, N. Y.), April, 1954. \$2.00 per year. Careful selection of clerical employees can have a profound effect upon the operating efficiency of an office and play an important part in controlling clerical costs. On the basis of experiences reported by 15 large utility companies, the author outlines a procedure for selecting clerical employees, discussing recruiting, interviewing, testing, physical examination, the checking of references, and final selection and placement. Thirteen of the 15 companies participating in this survey use various types of selection tests, it was found.

Manufacturing Management

NINE STEPS TO BETTER QUALITY

MANY companies, plagued with heavy factory rejects and field complaints, have in desperation tried quick cures—posters, slogans, contests, and similar nostrums. With a few notable exceptions, these were doomed to failure from the outset.

The main reason is that all these remedies are based on the assumption that the defects are preventable by the operators. However the prime cause of defects is often beyond the operators' control. Therefore, any quality improvement program, including the nine steps listed below, will probably lead nowhere unless you start with Step 1.

1. *Remove reject causes controlled by management.* These occur in methods, equipment, standards, and specifications. Until they are reduced to a minority, any campaign against defects will be wasted. You will be ready to start your quality control campaign only when the operators can avoid defects but are not doing so because quality does not mean enough to them.

2. *Set up a plant quality committee.* Specifications, methods, and controls are technical problems, but state of mind is a psychological problem and consequently calls for a selling job. Therefore, you'll need a good committee to sell your quality improvement ideas. The committee should include men from the *production department*, because it's the production supervisors who, in the last analysis, are going to make such a campaign successful; *engineering*, because of the numerous technical questions that come up during the conduct of the campaign; *accounting*,

because losses due to defects must be computed and other quality records kept; *the personnel department*, because it usually has responsibility for the bulletin boards, the company newspapers, and other publications, as well as experience in running contests; *sales and advertising*, which are often called on to develop posters and other advertising features; and *the quality control department*, because it does most of the analysis to find out where the defects are most numerous.

3. *Show operators how to improve quality.* This job must be tailor-made for each department. Within each department, your production supervisors and quality control people can work together to find the key reasons why operators go wrong, describe them briefly, post them on the department walls, give each operator a card describing them, and emphasize them at every opportunity.

4. *Solicit operators' ideas for improving quality.* This is important, not only as a way of generating interest among your employees, but also as part of the means for follow-through. If your company already has a suggestion-award system, your quality-improvement campaign can certainly make effective use of it. For instance, some companies reward quality suggestions at premium rates if these suggestions are made during the quality campaign.

5. *Convince operators of quality importance.* This can be done by clear demonstrations to prove to your workers that employees' jobs and pay depend on the

orders the company gets, and that these orders depend on quality.

The proved way to put across this idea is through mass advertising methods. A slogan contest draws broad participation and provides good messages for posters, newspapers, and give-aways (like mechanical pencils, shop caps, book matches).

6. *Establish quality scoreboards and goals.* Before developing a scoreboard, agree on a unit of measure—dollars, pounds, gallons, yards, percentage yield—chosen for the convenience of the players, not the scorekeeper.

Next, work up past information for at least a few months to get perspective on usual levels.

Then agree on an improvement goal which is truly acceptable to the foreman. In fact, in cases where the foreman is asked to propose his own goal, he usually comes up with a higher one than staff people do.

Finally, set up adequate machinery to report the score. In some instances, it is advisable to carry a scoreboard right down to individual operators. If so, the union needs to be brought in to agree on the manner of publicizing any individual scores.

7. *Follow the scoreboard with your foremen.* The attention given to the scoreboard is a measure of management's real interest in progress. Therefore there should be regular, personal reviews of each scoreboard with each foreman.

Where progress toward a goal is slow, management must be prepared to

assist the foreman. This assistance includes staff help, extra analysis of results, and added time for carrying the story to operators.

8. *Set a beginning and end to your campaign.* The campaign should start with a bang. All supervisors should be brought together, and, with the brass prominently in attendance, the campaign should be previewed. Some companies devote a whole day to this, with speeches, skits, small conferences, and a banquet.

The campaign should also start with a bang for the operators. Some companies even use a "teaser" period preceding the campaign, with mysterious posters to arouse curiosity.

The campaign should also end with a bang. For the operators, the end is signaled by the award of grand prizes for slogans, contests, and quality suggestions. For the foremen, the campaign can be ended by another general meeting, with the brass again in attendance, to express the company's appreciation and award any prizes.

9. *Follow through to make improvement permanent.* The best ways of doing each job should be written out and incorporated into the job instructions. In addition, the scoreboard should be continued.

The usual cost of a campaign? Less than \$10 per plant employee.

The usual result? A 50 per cent drop in the amount of operator-controllable defects. As a return on investment, a well-run quality improvement campaign has few rivals.

—J. M. JURAN. *Factory Management and Maintenance*, March, 1954, p. 106:3.

Guard Those You Love—Give to Conquer Cancer!

MATERIALS HANDLING: INDUSTRIAL COMMON DENOMINATOR

UNDERLYING ALL PRODUCTION planning today is the mechanized handling of materials. The National Safety Council estimates that an average of 50 tons of movement to produce 1 ton of finished product is necessary, and this figure runs much higher in some industries. At least 30 per cent of the average production dollar is spent in moving materials, and in some manufacturing plants handling costs are said to run as high as 85 per cent.

A thorough analysis of the production system will indicate clearly that a manufacturer cannot afford not to install an efficient handling layout. Here are just a few ways in which a good handling system can influence what happens elsewhere in production.

First, an often unsuspected, but entirely welcome dividend is an *increase in individual productivity*. It has been shown time after time that productivity is likely to increase substantially when materials are delivered to the workman at a constant, comfortable rate of speed and at a convenient point, where reaching and lifting are either minimized or eliminated entirely. An entire plant can function more efficiently if all operations are integrated and timed by a well-engineered mechanized handling system.

A second dividend from a well-planned handling system is *less wastage due to human error*. The mechanical delivery of parts in the proper sequence can greatly lessen the incidence of human errors. Where processing operations are included in the production flow, times, temperatures and atmospheric conditions can be controlled with a precision unattainable with manual methods.

When you install a carefully engineered mechanized handling system, you also in-

stall *safety*. According to the National Safety Council, materials mis-handling is public enemy number one of the workman, accounting for 35 per cent of all on-the-job compensable injuries. Of the mis-handling accidents, more than half are caused by plain old lifting. You seldom see a crane with smashed fingers, a fork-truck with a hernia, or a conveyor with a sprained sacroiliac.

Management can get the dividend of *less inventory* by pacing the output of components to the rate at which they are needed by the workman. A continuous, orderly flow of materials and components can be held to a precise rate, with banks of standby parts eliminated more often than not. Storage can then be checked right on the conveyor, visually and quickly.

Through the use of overhead areas for transportation, space can be conserved, resulting in obvious savings and other advantages.

Production engineering is simplified with a mechanized flow system, for bottlenecks can be more easily spotted and something done about them. One might even say that a well-integrated handling system affects "sales engineering," since the daily production of precisely predictable quantities of a product facilitates order scheduling. The sales engineer may find time to sell more goods if he doesn't have to spend quite so much time pacifying irate customers to whom delivery promises have been broken.

The most important and the first step in tackling a materials-handling problem is to recognize it for what it is—to understand that every time anything is lifted, carried, adjusted, or even touched, a materials-handling cost is involved.

The second step is to centralize the responsibility for doing something about it. Even the smallest plant can afford to charge one man with at least part-time responsibility for this function. In view of the importance of manufacturing costs to management and the strong influence on those costs of materials-handling methods, larger plants can well afford to establish whole departments in charge of moving materials at the greatest efficiency with the least cost.

No discussion of materials handling would be complete without mention of automation. Most conveyor manufacturers report a steadily increasing demand for more automatic features—automatic safety devices to protect both the man and the machine, automatic traffic control devices, automatic counting and weighing accessories, automatic speed control, automatic volume control, automatic inspection or quality control, automatic starting and stopping, automatic sequential control, automatic warning signals and spotting devices, automatic cut-in and

stand-by drives, and many other features too numerous to list.

One measure of the increased demand for automatic control of conveyors is the greater percentage of the production dollar going into engineering. Conveyor design now often combines production engineering, materials handling engineering, and mechanical, electrical, electronic, structural, and architectural engineering. Electronic engineering, for example, has resulted in major advances in materials handling techniques. In a Hawaiian sugar mill, a single operator now controls the flow of cane on four conveyors with closed-circuit television; previously two men had been retained to do an unsatisfactory job of preventing pile-ups and uneven flow.

In the light of all these developments, management faces a tremendous challenge. It must not only use all this equipment profitably; it must also act so wisely that the fears of those who see the growth of automatic control and automation as a source of economic weakness are never realized.

—R. C. SOLLENBERGER (Executive Vice President, Conveyor Equipment Manufacturers Association)

Radio Proves a Useful Plant Tool

FOR THE PAST two years, radio has been moving slowly but steadily into the industrial field. The use of small "transceivers"—radio units that can both receive and transmit messages—is old hat to soldiers, firemen, policemen, civil defense, pipeline patrollers, and the forestry service. More recently, small portable transmitters (weighing anywhere from 14 to 40 lbs.) have been used on switch engines and trucks in steel plants, in barge towboats, and in railroad switching yards.

Midget transceivers are now manufactured with operating ranges of one to 50 miles, depending on power output and antenna height at the main or base station—usually the main plant office of the company using radio.

Small transceivers received their first impetus in plant protection systems. International Harvester, Inland Steel, the University of Illinois, to mention a few, are using small transceivers in autos. A peacetime version of the wartime handy-talkie with a two-to-three mile range is being used to route fork-lift trucks in several plants. Dispatched from a central office, the lift-truck operator can report in when he's being delayed.

A few plants are beginning to purchase radio equipment with power greater than

60 watts to tie in company plants at considerable distances apart. Priced from \$200 to \$300 per unit, these sets aren't cheap. But, properly used, they can be a money-saving investment. One railroad reported savings up to \$3,600 per month when car checkers were given portable transceivers to report car numbers to a central dispatcher as the checker walked down the line inspecting door seals.

A steel mill using transceivers found "dead spots" in the plant area, assumed that the transmitter at the central office couldn't reach all parts of the mill because of the metal shielding some areas. By lifting the base station antenna higher, engineers found a low-powered set could cover the entire mill. They're now considering smaller units to contact overhead crane operators from the mill floor.

—*Iron Age* 4/22/54

Combating the Menace of Fatigue

ONLY ABOUT 2 per cent of industrial accidents are due to "acts of God." The other 98 per cent are due to human failure—and safety engineers have long suspected fatigue to be one of the primary causes.

According to John V. Grimaldi, director of the industrial division of the Association of Casualty and Surety Companies, safety specialists have learned that a workday of 8 hours showed the best results. "A working schedule of 12 hours a day caused 3 times as many accidents among women and twice as many among men as a workday of 10 hours," Mr. Grimaldi pointed out. "In a comparative study of an 8-hour plant and a 10-hour plant, the accident rate was lower and the production higher in the 8-hour plant."

As a result of his study, Mr. Grimaldi listed these suggestions for the elimination of fatigue:

1. The work assignment should match the physical and mental abilities of the worker.
2. The job should be engineered to produce the maximum efficiency contributable by the employee.
3. The supervisor should attempt to reduce any possibility of friction between employees or between himself and the employees.
4. Speedup of production lines should only be undertaken after full consideration has been given to possible cumulative effects of the increased activity demand.
5. Workdays in excess of 48 hours on a 6-day-a-week basis should be avoided.
6. For monotonous and repetitive work, a 5-minute rest period in each hour should be allowed. For less intensive work, a 10- or 15-minute rest period in the middle of the first and last halves of each shift should prove beneficial.
7. Shifts should be rotated infrequently, every two or three months rather than every week or two.
8. Educational programs should be planned which will teach the rules for good posture, hygiene, nutrition, recreation, and relaxation.

—*American Business*, Vol. 23 No. 12

DANGEROUS DAYDREAMS: In-plant accidents, it has been found, occur more frequently immediately before and immediately after vacation periods. It seems that workers daydream about future fun or past enjoyments instead of paying careful attention to their jobs. Evidently, then, spring and summer might be good times to run a safety contest, or to brief foremen on closer safety supervision of employees who are soon to go on vacation or have recently returned.

—*Employee Relations Bulletin* (National Foremen's Institute, Inc.)

INCENTIVES FOR ALL

IF PLANT PERSONNEL are to operate at peak efficiency, they cannot be half on incentives and half off. Some companies have only direct workers on incentive; they do better than firms that have no workers at all on that basis. Other companies go a step farther, including indirect workers in the incentive plan as well as direct; they do still better. But the firms that bring supervisors into the plan, too, do best of all.

The degree to which the incentive worker influences costs and productivity varies with the effectiveness of the supervision over him. The supervisor is the key to maximum success of the plan. Therefore, it is only reasonable to give members of the supervisory group the same opportunity to earn premium pay as the workers. As a matter of fact, it pays to apply incentives to all levels of supervision and management, including the company president.

In many companies where supervisors have no incentive under the plan for assisting operators to earn a premium, they feel that they have no reason to care about the plan and so do not help. In fact, such a plan may be its own worst enemy; in many instances where incentives are applied only to the operators, the result is to narrow the spread between the earnings of the supervisor and of the man who works under him.

In gathering and analyzing the facts for paying incentives to supervisors, management should be on the alert for two damaging conditions which reduce the effectiveness of the incentive plan: (1) The incentive must apply only to those items over which the supervisor normally exercises direct control. To penalize or reward him for cost variations with which

he has had nothing to do destroys the relationship between effort and pay and leads to the eventual loss of benefits that might otherwise be gained. (2) Variations in cost due to volume should be taken into account. The supervisor should neither profit nor lose because of the work of the sales department.

But, the question may arise, is it practical from an administrative point of view to have supervisors on incentives? Are there objective enough criteria? To answer this question, let us look at the positive factors which should be used as a basis for paying incentive earnings to foremen, who wield so much influence over labor costs:

1. Costs increase when a worker produces less than 60 standard minutes of work per hour, since he is guaranteed his base hourly rate regardless of his production. "Sub-normal" production is, of course, immediately reflected in the cost picture. When it is also reflected in the earnings of the foreman, he will try harder to correct the situation.

2. "Waiting time" is costly. When the cost of this time is isolated, it becomes readily controllable. If incorporated in the foreman's incentive, it will receive the attention it deserves.

3. In almost every job there is some amount of "set-up." It is not uncommon to find this preparatory work classified as productive. Since set-up is not performed for every piece, its effect on unit cost varies. The amount of set-up will vary with the ability of the foreman to plan the work going through his department. If set-up cost is reflected in the foreman's earnings, there will be an incentive for him to keep it at a minimum.

4. Foremen should be rewarded for assistance they can give the industrial engineer in setting standards for "day-work" jobs so that as many of those jobs as possible can be put on incentives. "Day-work" jobs are costly to the company because, without incentives, the workers let down.

5. The success of a foreman in helping skilled workers to perform skilled work as close as possible to 100 per cent of the time should be reflected in his earnings. If, for instance, a skilled operator gets a truck on which to load his finished pieces, he is being paid a skilled operator's rate for an unskilled or semi-skilled task. His machine and production tools

stand idle while he trucks. The industrial engineers and accountants can isolate such instances and figure them as an element of extra cost.

6. The foreman should also be rewarded for his success in the supervision of indirect labor costs.

It is practicable to obtain facts such as the foregoing if there is cooperation between skilled industrial engineers and the accountants. The former can make the factual measurements, while the latter assemble the necessary data from the same records used in determining earnings of incentive workers. Thus the payment of incentive earnings to supervisors can be put on a sound, workable basis.

—BRUCE PAYNE. *Michigan Business Review*, March, 1954, p. 18:5.

Plant Within a Plant

HANDLING of special short-run jobs is a serious production problem in plants of any size. But it's no trick at all to get special work done at Hydro-Aire Corp., Burbank, Calif. This firm has solved the problem of limited production by establishing a miniature plant, identical in every way to its main facilities, to take care of small-quantity special items.

The special order shop is housed in a separate building, and carries on all production functions in an 8,500 sq. ft. area. This compares with the 50,000 sq. ft. production space of the main plant. The shop's assembly and testing section takes up 1,000 sq. ft., and is handled by three employees.

Machinery and layout of the special order shop match those of the main plant. In addition to special orders, the small plant produces some complete components on a sustained basis.

The benefits derived from operation of the special order facility are many, including these:

1. Small orders are segregated for special handling.
2. The firm can handle orders it would not otherwise consider.
3. Small runs, a customer service usually lost with expansion, are retained.
4. Emergency jobs can be handled quickly.
5. The unit is nearly self-sufficient and acts as subcontractor to the main plant.
6. Preliminary designs can be better handled by the small facility.
7. The red tape of tooling up for long runs has been cut by the specialized plant.

—JAMES JOSEPH in *Mill & Factory* 3/54

Also Recommended • • •

IS YOUR PLANT SAFE? By Donald J. Wood. *Mill & Factory* (205 East 42 Street, New York 17, N. Y.), March, 1954. 50 cents. Reviews the steps taken by four companies to remedy various common weaknesses in the safety program: inadequate training of new workers, lack of proper organization, poor plant layout and inadequate safeguards, and poor plant housekeeping practices. The author points out that insurance companies, trade associations, and state Departments of Labor can aid plant management greatly in organizing the safety program.

REVITALIZING A PURCHASING DEPARTMENT TO MEET A GROWING COMPANY'S NEED. *Purchasing* (205 East 42 Street, New York 17, N. Y.), April, 1954, and May, 1954. 50 cents per issue. Two articles describing how the Carrier Corporation developed an effective purchase analysis program and decentralized its purchasing operations to meet the problems of expansion, product diversification, and change from custom-built equipment to standard lines and mass production. The first article gives an account of the policies, methods, and organizational changes involved; the second details Carrier's cost-reduction program and the practical results it has achieved.

HOW MUCH AUTOMATION FOR YOUR PLANT? By Annesta R. Gardner. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N. Y.), February, 1954. 75 cents. Questions and answers on when and how automation should be undertaken, personnel and technical problems connected with it, and savings attainable are set forth here, together with descriptions and photographs of automatic machines in such plants as the Ford Motor Company's engine divisions. Automation is especially worth considering, the article says, when handling costs are large; when new, faster machines or processing equipment are to be installed; when very small, delicate parts are being fabricated or assembled; or when handling poses special safety hazards.

MAINTENANCE INCENTIVES ARE PRACTICAL—BUT . . . By W. C. Cooling. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), February, 1954. 50 cents. The keys to successful maintenance incentives are four, says this author: (1) Job time standards should be based on standard data; (2) time standards must include reason-

able allowances for delays and miscellaneous work; (3) calculation of incentive payments should be based on adequate time periods to average conditions; and (4) payments should begin at a relatively low performance level. Outlining possible approaches to developing a sound maintenance incentive system, the author points out that methods should in all cases be improved and standardized as a preliminary step.

INDUSTRY TAKES TO POWDER. By Thomas A. Kindre. *Steelways* (350 Fifth Avenue, New York 1, N. Y.), April, 1954. The revival of powder metallurgy, used by the Egyptians as early as 3,000 B.C., has broken defense bottlenecks, saved millions of dollars for government and manufacturers, and has enabled metallurgists to combine metals that won't unite in any other way, this article reports. Among the recent developments in this industry is the construction of a \$2 million plant in Toledo, Ohio, which will produce directly from iron ore, by a chemical process, about 25 tons of iron powder a day.

EYE CARE PROGRAMS. By Joseph E. Nichols. *Best's Fire and Casualty News* (75 John Street, New York 38, N. Y.), April, 1954. 50 cents. An eyesight conservation program initiated by a metal fabricating company has justified itself in terms of improved production efficiency, reduced scrap losses, and quality alone, this author asserts, noting that in industry as a whole, one out of every three employees has inadequate vision for his job. The basic elements of a good sight conservation program are described in this article, which stresses the role of the plant nurse and the plant dispensary in screening applicants for employment, assisting in proper job placement, and maintaining eye health of employees.

ACCIDENTS CAN BE PREDICTED. By D. F. Hayes. *National Safety News* (425 North Michigan Avenue, Chicago 11, Ill.), April, 1954. 75 cents. Using examples from the construction industry, this article shows that changes in accident frequency rates can be predicted because of definite, observable patterns in the occurrence of accidents. The two accident peaks a year experienced by many industries, the article states, can be greatly reduced—at great savings—by preventive action based on an analysis of the underlying causes.

Marketing Management

ARE SALES EXECUTIVES UNDERSELLING THEMSELVES?

SINCE World War II the sales executive's responsibilities have intensified and broadened. He has strengthened some functions, added others and often made basic changes in his company's sales and distribution setup. His pay-envelope rewards, however, have increased only one-fifth as fast as the sales his efforts have produced.

This conclusion emerges from a recent study of the sales executive's responsibilities, accomplishments, and rewards. Top sales executives in companies with annual sales between \$4 million and \$500 million were surveyed, and their replies amplified and to some degree corrected by presidents of companies with annual sales between \$9 million and \$800 million. Together, the respondents may represent a reasonable cross section of companies selling products (and some services) across America.

What are the three most important functions of the sales executive's job, in the opinion of presidents and sales executives?

The presidents make most frequent mention of "broad" or "long-range" planning. After this comes "directing the over-all sales activity"—or sales administration. The presidents then list: product line development, coordinating sales and advertising research, selling, and participating in general organization functions.

The sales executives' replies to this question are more specific and detailed. Sales administration—including evaluation and control of sales activities—is

stressed slightly more than planning. They also consider important: "over-all sales activities"—including work with the field force, merchandising, and sales promotion; advertising; selection, training, and stimulating men; product development; market research; and budgeting. Miscellaneous "important" mentions range from sales organization, sales quotas, and production scheduling to distribution policies, exports, and "consequential deals."

The presidents report that in the last seven years their top sales executive has been given greater responsibility for general sales activities and operations, and also for planning to strengthen the company's future sales position. Other areas of greater responsibility mentioned are administration budgets, planning and policy, product education, marketing and merchandising, dealer demonstration, and budgets.

According to the presidents, the sales executive has been most effective in functions ranging from planning sales budgets and administration to opening new channels of distribution (e.g., drugs in food stores), product development, sales training and compensation plans, merchandising, and public relations. They find him less effective in long-range planning and the research essential to it; in budgeting and forecasting for production; in sales administration; and, interestingly enough, in short-term planning. However, their praise outweighs their criticism by more than two to one.

The sales executive doesn't seem able to work union hours. About half the sales executives surveyed still can call on customers and good (or tough) prospects "now and then," and 14 per cent and 20 per cent, respectively, call on these two groups "regularly." But at the other extreme, 16 per cent don't have time to call on prospects at all, and 7 per cent no longer can call on customers.

The average sales executive repplier devotes 42.5 per cent of his time to planning and 57.5 per cent to executing. One in 10 now devotes only 10 per cent of his time to planning. Only one in 15 can spend three-fourths of his time at it.

If their day could be lengthened, slightly more than half of all sales executives would devote more of it to contacts and travel: meeting their own people and customers; "testing theory by practice"; and studying trade reactions to their products and those of their competitors.

How does the sales executive "stand" with his outfit? Two-thirds of sales executives feel that top management's recognition of the job today is greater than it was seven years ago. Most of the others say it has always been good, while only two individuals note less recognition. Two-thirds of the replying presidents feel that their sales executive's authority today is greater, and that the cooperation

and recognition given him by top management are greater.

Since 1920, the proportion of sales executives holding the position of vice president has increased nearly sevenfold. Today, more than 90 per cent of the presidents report that their top sales executive is a vice president or executive v.p.

Presidents report that the proportion of top sales executives on boards of directors has risen since 1946 from 15 per cent to 38 per cent, while the sales executives show their participation rising from 40 per cent to 60 per cent. Several others say that though they are not formally "directors," they sit in at board meetings.

How well is the sales executive rewarded? Nearly all the replying presidents regard the present pay (salary, bonus, etc.) of their sales executive to be "adequate." Yet, though the median sales gain of all companies participating rose from just under \$25 million to just over \$50 million, the median income of the top sales executive of these companies increased from just under \$25,000 to just under \$30,000. Thus the sales executive's reward—for all the responsibilities he has assumed and all the results he has to show for them—has grown less than one-fifth as fast as the sales revenue he has achieved for his company.

A moral from all this might be: Sales executive, sell yourself!

—LAWRENCE M. HUGHES. *Sales Management*, January 15, 1954, p. 52:5.

Xenophobia and Salesmanship

XENOPHOBIA, "fear of the stranger," is the toughest obstacle a salesman encounters when he attempts to open new accounts. All too often the buyer's attitude is that of the English navy who was with a friend when someone approached. "Who is it, Alf?" the friend asked. "I don't know," said Alf. "Strynger. 'Eave a brick at 'im."

—*Horizons* (Sidener and Van Riper, Inc., Indianapolis, Ind.) 4/54

GAUGING THE CONSUMER'S PLANS

SO MUCH OF the momentum of present-day business is dependent on the will and capacity of the consumer to buy that the Federal Reserve Board's annual survey of consumer finances is increasingly being recognized as a direction-finder in the national economy.

How the public feels about its financial affairs is a vital factor in the prosperity equation. Together with the intentions that the public forms on major purchases and investment preferences, it is a fairly reliable gauge of where business is apt to go in the immediate future.

This year's preliminary report on the subject shows that the consumer's appraisal of his circumstances, and his attitude on business conditions, have changed markedly from last year. Insofar as these judgments are apt to affect the general business picture, they may be classified as follows:

Positive factors in consumer buying intentions: (1) A greater proportion of people than last year plan to go in for home improvement and maintenance. (2) The same proportion as last year plan to purchase used cars. (3) A larger percentage expect prices to fall this year. (4) Fewer people think that prices will rise. (5) There was a general upgrading of liquid asset holdings, with a substantially larger proportion of people having moderate holdings and substantially fewer in the little-or-no-holdings category. (6) Over the past year a smaller proportion of people had incomes of \$4,000 and less, while a substantially greater proportion fell in the \$4,000-\$8,000 category. (7) There was a decided increase in those favoring assets of a fixed money value—savings accounts and savings bonds, and a corresponding drop in the proportion

favoring assets of fluctuating value—common stock and real estate.

Negative factors in consumer buying intentions: (1) Fewer plan to purchase new houses, new automobiles, furniture, and major household appliances. (2) A slightly higher proportion than last year think it is a worse time to buy durable goods. (3) Substantially fewer people expect to be making more money this year and substantially more expect to be making less, compared to the way people felt about their incomes last year. (4) Fewer people thought themselves better off this year than last, and a greater proportion thought themselves worse off. (5) A smaller proportion have seen their income rate go up and a larger proportion have seen it go down than was the case a year earlier.

The first thing that impresses you about these opinions is the striking way they reflect current economic conditions. What is not shown here, and must be inferred from past experience and surveys of a different character, is how present consumer attitudes will affect the total level of spending.

On this point the evidence is all to the good. It shows that a decline in demand for houses and durables is likely to be balanced to a large extent by demand for other types of goods. The underlying fact is that people reduce the level of their spending only with the greatest reluctance, and when well-stocked with some lines of goods will devote their spending power to others. In fact, evidence indicates that this determination to hold to an accomplished standard of living will impel a majority of people to exhaust savings or even go into debt, living beyond

income for as long as a year, before substantially modifying their buying habits.

But this extremity is not in prospect for many who were questioned in the FRB survey. On the contrary, the in-

quiry seems to show that the level of effective demand remains high. The other side of the coin—the willingness of people to spend—ought, by the testimony of experience, to remain high as well.

—*The Biddle Survey* (Biddle Purchasing Company, New York), April 13, 1954, p. 2:2.

39 SECRETS OF SALES SUCCESS

BY CONSTANTLY reviewing their sales techniques, salesmen will go a long way toward correcting their weak points. Here's a list of 39 basic ingredients of better salesmanship, published recently in *Guarantee Mutual Life's News*. Though no single sale may require the employment of all these factors, a salesman's over-all success will depend on the mastery of this set of principles.

1. Plan the sales call. Don't just "drop in."

2. Know the product. The salesman who is thoroughly familiar with his product never has to misrepresent it.

3. Have faith in the performance of the product. The more you believe in your product, the more conviction you will have in selling it.

4. Time your calls to suit the convenience of your customers and prospects. Calling when the customer is most receptive may not give you banker's hours, but it will give you an enviable sales record.

5. Sell the benefit the product offers—not the gimmick. Tell the prospect convincingly what the product will do for him, and he will become a customer.

6. If you are selling something tangible, demonstrate it. There is no better sales argument than the product in operation.

7. Don't overlook the chance to use case histories. It is easier to build customers out of prospects if you can show them how the product has benefited others.

8. Know who influences the sale. It may be one man or several, but don't waste your time with people who cannot influence the purchase of the product.

9. Look on each sales objection as a sales opportunity. Know the objections—and the answers.

10. Don't be afraid to break with traditions.

11. Always be on the search for new outlets, new fields. Don't concentrate on the regular rabbit-runs.

12. Ask for the order. This is the No. 1 rule of selling—yet a surprising number of salesmen never get around to asking for the order.

13. Know when to ask for the order. Sometimes it's easier to talk yourself out of an order than to talk yourself into one.

14. Often the follow-up is more important than the original call. Many sales are lost because the salesman did not know when to follow up on the order.

15. Don't stop your sales talk too soon. You should never let go of any prospect until you are sure he thoroughly understands every benefit the product can offer him.

16. Practice your sales story—from the approach to the signed order. The more rough spots you smooth off before calling on the prospect, the easier is the road to the sale.

17. Work out a standard selling plan that is flexible enough to be adapted to all cases. Make your selling plan your sales road map.

18. If your company gives you sales aids, use them—and don't hesitate to try out your own ideas. Sometimes a homely little gimmick created by the salesman himself helps illustrate a point and carries the kind of conviction that leads to a sale.

19. Sell from the prospect's side of the fence. The only way you can solve your own sales problems is by helping him solve his.

20. Remember that quality is still tops as a sales argument. Price is important—but quality will outsell price in the long run because it builds permanently satisfied customers.

21. Don't let the prospect get your goat. Salesmen must keep their tempers in the face of the roughest conditions.

22. Don't be a softy. The voice with the smile wins—but behind the smile must be purpose and conviction.

23. Remember there is no such thing as a closed door to the sale. Use your ingenuity and patience to find the key that will unlock the door.

24. Talk the customer's language. If you understand his problems, you are bound to talk his language.

25. Adapt your sales approach to the customer. Even the most rigid canned sales talk has to be fitted to the customer's needs.

26. Patience, persistence, and enthusiasm are three character ingredients for

which the salesman can find no substitute. Take away any one, and the other two become much less valuable.

27. Get to know the habits of the men you sell—and the men you want to sell. You'll be surprised how many similarities there are among customers.

28. Put the product in the hands of your prospect if possible. Let him hold it, feel it, use it. Even if you are selling an intangible, try to find something tangible, like a booklet or other sales aid, that will give the prospect a feeling of possession.

29. Don't be afraid to set a definite sales goal for yourself. In no other field of business activity does hitching your wagon to a star pay better dividends.

30. Always smooth your road with proper preparation. The salesman who is prepared, physically, morally, mentally, and materially, need have no fear of the tough prospect.

31. Watch your health. A sick salesman cannot be a successful salesman.

32. Don't overlook pride of ownership as a sales angle. It can sometimes be the clincher that closes the sale.

33. Always dispose of a sales objection. You might think the prospect has forgotten it, but it is likely to be the one objection he will remember after you have answered all the others.

34. Don't underestimate the moral and ethical principles of your customers. Avoid profanity, rough language, and dirty stories.

35. Don't hesitate to use your satisfied customer to help you make sales.

36. Protect your customers from overbuying. The oversold customer of this trip becomes the unsold customer on your next trip.

37. Make the customer feel that you are a helper rather than an antagonist. Friendly cooperation is the best means of gaining customers.

38. Don't overlook the little extras. Often a simple favor done outside the regular line of duty builds a permanent

friendship that makes a permanent customer.

39. Finally, don't duck the hard sale. Every successful salesman will tell you he learned more from the tough ones than he did from the easy ones. The path to sales success isn't the line of least resistance.

—*The Weekly Underwriter*, March 20, 1954, p. 740:2.

The Sales Executive: A Composite Profile

THOUGH SALES EXECUTIVES of the nation's largest metropolitan area may not be entirely representative of the provinces at large, the following description of the New York sales executive may furnish some clues to the background and stature of sales executives generally.

New York's typical sales executive is about 46 years of age. His income is about \$22,000. He has either been to college or has taken business courses after graduation from high school. He controls about \$724,000 in business spending annually. He is especially sensitive to magazine advertising, and he does a whale of a lot of travelling.

Those are the averages, based on a poll of 2,600 members of the New York Sales Executives Club, which estimates that its members control annual company spending to the tune of \$1.9 billion. Scattered around the averages are some interesting figures. About 31 per cent of the executives are over 55, and about 46 per cent are less than 45. The largest single group, nearly 36 per cent, are between the ages of 35 and 44.

Even if the figures are only roughly representative, sales management is well above the national average on the basis of education. About 59 per cent left college by the front door, while another 30 per cent have taken courses in addition to their high-school training.

—*Dun's Review and Modern Industry* 3/54

Where to Find Fledglings

IN DAYS PAST, one of the most logical methods for procuring qualified salesmen was to raid the competitor's camp. Today, according to a recent Conference Board survey of 140 firms, our colleges and universities are the best hunting grounds for ready-to-train sales talent.

Even so, few companies depend entirely on colleges in their search for sales personnel. Most surveyed companies regularly tap two or more sources to "avoid blind spots" in selecting salesmen.

Of the 140 companies surveyed, 60 find and develop sales personnel in other departments within their own companies; 45 advertise for sales help in newspapers and business publications; 42 find valuable leads from salesmen and others already employed in their own organization; 31 screen unsolicited applications for employment; and 22 depend on employment agencies. Forty-three require at least a year's training before full-time assignments are made.

—*Sales Management* 1/15/54

COST CONTROL FOR MARKETING OPERATIONS: A STUDY OF COMPANY PRACTICES

ACCOUNTING TOOLS for controlling a large portion of marketing costs are available, and a few companies do utilize these tools effectively, according to a recent research study conducted by the National Association of Cost Accountants.*

In interviewing 42 leading companies, the N.A.C.A. research staff discovered that the principal accounting tool used by management for controlling costs is the periodic budget. Standard costs are also used to advantage in the control of marketing costs, but not so widely or so successfully as with manufacturing costs. Control after the fact is applied where necessary in order to bring costs back into line with planned goals when significant variances appear. For this purpose, current actual costs may be compared with budgeted costs, standard costs, actual costs of prior periods, actual costs from other, comparable units of the same company, and composite figures for the industry where these are available.

The various activities which comprise the marketing function display a variety of cost characteristics. In order to gain effective control, it is necessary to select the type of budget or standard best suited to the specific order-getting or order-filling cost to be controlled.

With regard to order-getting costs (advertising, sales promotion, and selling), it was discovered that most companies first establish practical objectives to be reached during the approaching budget period, such as the introduction of new products, the achieve-

ment of a specified sales increase, or the maintenance of sales volume against competition. The next step, it was found, is to formulate a coordinated plan for using advertising media, sales promotions, and sales coverage to arrive at these objectives. Subsequent control through a comparison of current expenditures with budgeted expenditures seems to insure that expenditures are made and that they follow the plan embodied in the budget. In fact, since the purpose of these activities is to produce sales orders, failure to make the planned expenditures may mean that sales opportunities have been lost rather than desirable savings made.

Since advertising, sales promotion, and selling often do not result in customer sales orders until a considerable period of time has elapsed, it is extremely difficult to establish standard costs to measure the performance of employees responsible for these functions. However, some methods which may be useful for evaluating the comparative effectiveness of different types of advertising, promotion, and selling are available.

A variety of predetermined comparison figures resembling standard costs are employed in budgeting selling costs and in evaluating selling methods used. The study disclosed a few companies which have made time studies of salesmen's activities. Though, in some cases, standards have been established for use by sales management in planning sales activities, in no instance do these standards constitute the basis for standard costs of the type used

* The complete text of the study, "Cost Control for Marketing Operations," is being published in the N.A.C.A. *Bulletin* in a series of special sections, beginning with the April 1954 issue. Copies of an advance summary of the study are available on request from the National Association of Cost Accountants, 505 Park Avenue, New York 22, N. Y.

in manufacturing. Primary control over salesmen's work and salesmen's expenses is usually exercised at the local district level of supervision, because local sales management knows conditions in its areas and is in the best position to judge what expenses should be.

The experience of the companies with regard to order-filling costs (warehousing, transportation, and marketing clerical functions) showed that it is possible to budget order-filling costs on the basis of volume in much the same way that manufacturing cost budgets are based on production volume. Since transportation, warehousing, and marketing clerical operations are largely repetitive and are performed under conditions over which management has a substantial degree of control, standards and flexible budgets are

the principal accounting tools used to aid control of these costs.

Of the several functions included in order-filling, warehousing is the one to which accounting cost controls have been most extensively applied by companies participating in this study. Companies operating sizeable warehouses generally have operations standards for budgeting man-hours, supplies, and other cost factors. These standards serve as a base for standard costs and flexible budgets expressed in dollar form.

In most companies, managerial policies establish conditions under which sales deductions are allowable. Subsequent control is maintained principally by requiring a responsible individual to approve specific transactions and by reporting deductions by kind and cause for periodic review.

How Alive Is Your Imagination?

THE LATEST ESTIMATE of population growth in the United States is that there will be 28 million more people living here in 1963 than at present. What do these figures mean to you and your business? Perhaps the following facts will stimulate your thinking.

From 1930 to 1950 we added 27,912,315 people; in the next 10 years, we are going to add as many people as we did in that 20-year period. Can you picture the development in this country and in your community between 1930 and 1950 and visualize a similar development in the next 10 years?

In the next 10 years the increase in consumers will be equivalent to the total 1950 population of Nevada, Wyoming, Delaware, Vermont, New Hampshire, Idaho, Montana, N. Dakota, S. Dakota, New Mexico, Utah, Arizona, Rhode Island, Maine, Colorado, Nebraska, Oregon, Kansas, Arkansas, W. Virginia, Connecticut, S. Carolina, Oklahoma, Mississippi, and the District of Columbia.

In 1950 the entire population of the prosperous East North Central States (Ohio, Indiana, Illinois, Michigan, Wisconsin) was 30,399,368 people. In the next 11 years the growth in the United States will probably equal or exceed that total.

In 1950 the entire population of New England was 9,314,453. Within the next four years the increase will more than equal that.

Can you visualize the tremendous job America has ahead of it to satisfy this additional demand for food, clothing, housing, schools, roads, manufacturing facilities, distributions outlets, power, etc.? Watch your census figures, both nationally and locally. Keep in touch with your commerce field offices and their cooperative offices located in many of the cities throughout the region for the most up-to-date information on people—for people determine markets.

—Michigan Business Review 3/54

How Salesmen Spend Their Time

TIME is the salesman's precious ally. Unfortunately, he can't manufacture extra hours—but he may be able to make better use of what's available.

In a survey made of salesmen across the nation, a representative sample of them were asked to estimate the percentage of time spent on each of several basic activities usually involved in the average sales call.

The questions varied, depending on the type of customer sold by the salesman—wholesaler, dealer, industrial. Definitions of some of the terms used follow:

"Dealer assistance"—helping the retailer with promotion, setting up displays, improving dealer sales technique, managerial advice, and housekeeping. "Service selling"—helping wholesalers with layouts, blueprints, estimates and catalog aids; providing the industrial customer with engineering help, catalog aids, etc. "Supplies selling"—replenishing a wholesaler's stock of supplies or checking a firm's inventory for needed maintenance supplies. "Non-direct sales talk"—non-specific, non-business conversation. "Related sales activities"—filling out call reports and other forms.

Averaged on a national basis, the survey results form an up-to-date picture of how salesmen are spending their time.

On a typical wholesale call, salesmen reported they spend their time as follows: waiting for customer, 11 per cent; specific product selling, 16 per cent; supplies selling, 33 per cent; service selling, 23 per cent; non-direct sales talk, 12 per cent; and related sales activities, 5 per cent.

On a typical dealer call, salesmen reported they spend their time like this: waiting for customer, 23 per cent; specific product selling, 37 per cent; dealer assistance, 15 per cent; non-direct sales talk, 15 per cent; and related sales activities, 10 per cent.

On a typical industrial call, salesmen spend their time like this: waiting for customer, 18 per cent; specific product selling, 21 per cent; supplies selling, 25 per cent; service selling, 18 per cent; non-direct sales talk, 11 per cent; and related sales activities, 6 per cent.

—*Electrical Wholesaling*

New Market Perspectives

THE COMPLACENCY of star salesmen who had racked up "hot" sales records during 1953 was jarred more than gently by a recent communique from Minneapolis-Honeywell headquarters to the company's field sales force.

Urging the salesmen to get up off their laurels, the memo reminded them that in 1953:

Ninety-eight per cent of the families in America did not move into new homes or apartments; 98 per cent did not buy a food freezer; 97 per cent did not buy a room air conditioner; 97 per cent did not buy an electric range.

Ninety-four per cent did not buy a vacuum cleaner; 92 per cent did not buy a refrigerator; 92 per cent did not buy an electric shaver; 92 per cent did not paint their houses.

Ninety-one per cent did not buy a washing machine; 89 per cent did not ride in Pullmans or airplanes; 85 per cent did not buy a TV set; 76 per cent did not take a real vacation trip; and 71 per cent did not buy a radio set.

And this, the home-office "needle" pointed out, was during a period when consumer savings were at an all-time high. The inference was obvious.

Pin-Ups and Dead-Pans

AN UNUSUAL sales promotion piece, issued primarily for the petroleum industry, is Technical Bulletin ICU-2, published by Baroid Sales Division, National Lead Company. Pin-up pictures aren't new, and neither is technical language—but when they are combined with taste and wit, as they are here, the combination is irresistible to most men.

For example, imagine a young women gazing seaward. Her figure is constructed in close tolerance to the specifications of her Bikini bathing suit. Beneath the picture is this dead-pan caption: "A report of no yield has been received on a wild-cat operation recently attempted on a coastal venture. Although surface studies of exposed formations indicated possibilities, and there was intensely competitive exploitation, no tests could be completed because of high resistance of the formations. Investigations have been abandoned."

—Horisons (Sidener and Van Riper, Inc., Indianapolis, Ind.) 4/54

Also Recommended • • •

"MANAGEMENT MARKET" MEANS BILLIONS MORE BUSINESS. By Lawrence M. Hughes. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), March 15, 1954. 50 cents. A compilation of statistical data from many sources, bearing on the U. S. executive as a buyer of industrial and consumer goods and an influence upon the buying decisions of others. An impressive array of facts on the readers and subscribers of leading business periodicals and "class" magazines illustrates the potential of the "management market," and other sections of the article cover such topics as the trend toward decentralized corporate buying and the influence of top management on purchasing decisions.

APPLICATION OF OPERATIONS RESEARCH TO MARKETING AND RELATED MANAGEMENT PROBLEMS. By John F. Magee. *The Journal of Marketing* (1525 East 53 Street, Chicago 15, Ill.), April, 1954. \$1.50. Describing the methods employed and the results attained by operations research in actual cases involving a variety of marketing problems, the author shows how the operations research activity, while undertaken to solve a particular, sharply defined problem, is likely to throw important new light on other areas of company operations. Far from conflicting with other management services (e.g., accounting, market research, and industrial engineering), it can proceed most rapidly and economically, he asserts, in companies where such services have already been highly developed.

HOW TO THINK ABOUT MAIL ORDER. *The Reporter of Direct Mail Advertising* (224 Seventh Street, Garden City, N. Y.), April, 1954. \$6.00 per year. A thoroughgoing study of the entire problem of mail order selling, including statements by experts on the principles of mail order, as well as practical tips from successful mail order operators. Individual articles deal with differences in mail order techniques, which vary with the six major types of business using mail orders; the "secret of success" in mail order operations; important factors in every mail order campaign—lists, format, copy, etc.; the value of questioning and constant experimentation; and space advertising and publicity in relation to mail order. A concluding article offers a case history showing how mail order selling outdid dealer selling in one instance.

THEY'LL SELL YOU ALMOST ANYTHING YOU ASK FOR—AT A DISCOUNT. *Business Week* (330 West 42 Street, New York 36, N. Y.), April 3, 1954. 25 cents. The nub of the discount house operation is the opportunity to do business with a small inventory by filling orders from the stocks of authorized distributors and cutting prices on nationally advertised brands of manufacturers who leave their price policies unpolicied, this article states. Low profit margins and large telephone and advertising bills must be compensated for by quick turnover, however, as the experience of two Connecticut discount-house managers has shown.

Financial Management

CREDIT UNIONS ARE HERE TO STAY

CREDIT UNIONS, the cooperative savings and lending organizations set up by employees, are growing fast. In five years the number of such unions has risen 54.3 per cent, from 9,331 to 14,398; membership has almost doubled, from 3.7 million to nearly 7.2 million; loans outstanding, as of Jan. 1, were \$1.4 billion, as against the earlier \$398 million; and assets have risen from \$701 million to over \$2 billion.

The biggest single reason for the meteoric rise of credit unions is the continuing need among workers for a place where they can borrow money at reasonable cost to meet medical bills, pay for autos and other major purchases, pay tuition fees for children, and the like. In some communities, the banks still frown on these small loans, leaving the worker at the mercy of the loan shark.

A secondary cause is the fact that thousands of workers, for the first time in their lives, are making enough money to do some saving. The credit union gives them a safe haven for their spare cash, and pays interest ranging from 0.5 per cent to 6 per cent. The average is around 3 per cent.

Credit unions can be organized under federal or state charters. Technically, they don't accept deposits. Instead, the members buy shares, just as they do in savings and loan associations. Interest payments are called dividends.

At the start, credit unions were often sponsored by employers, or by employers and labor unions working together. Today, they are usually organized by the workers themselves.

The East Hartford Aircraft Federal Credit Union belongs to the earlier type. It received direct aid from United Aircraft's Pratt & Whitney Division when it was set up in 1935.

Today it is self-sufficient. Recently, it boasted assets of almost \$11.3 million, outstanding loans of \$6.3 million, and 26,800 active members. It owns its own building and has 64 full-time employees. Last year, the members maintained an average balance of \$391.47, on which they were paid $3\frac{1}{4}$ per cent interest. The average loan was \$437, with interest charges of 1 per cent a month on the unpaid balance. But for the year, the credit union refunded 20 per cent of the interest charges to the borrowers.

One of the largest state-chartered outfits is the Municipal Credit Union in New York City, sponsored by city employees. It was organized in 1916 with 19 members and \$570 in capital. Today the union has over 40,000 members and assets of close to \$11.4 million. Last year it made 16,178 loans, with a loan balance of \$8.7 million at the end of the year.

Other companies whose employees have formed credit unions are: Allis-Chalmers, Dow Chemical, Eastern Airlines, Lockheed Aircraft, National Cash Register, Standard Oil (N. J.), Gulf Oil, Shell Oil, Republic Steel, Swift & Co., dozens of railroads, and virtually all automobile and parts makers.

As a rule, the credit unions have done well in placing their loans. The East Hartford Aircraft Federal Credit Union, for example, has a loss record of "less than

1 per cent" over the years. The big New York City Municipal Union also reports extremely small losses.

Most credit unions in industrial companies are run by a board of directors chosen from the worker-members. EHAF-CU has 15 directors, all aircraft employees.

Though most companies help out by providing payroll deduction of installment loan repayments, if the credit union requests it, some firms are skeptical of credit unions. They question whether the average worker, with no special knowledge of investment or finance, should have the responsibility of making investments or deciding to whom and in what amount money should be lent.

In actual experience, the layman directors seem to be doing very well, guided by the fairly narrow and well-lighted paths charted for them by federal and state officials. Indeed, they have relatively little discretion in many respects. Federal-chartered credit unions, which operate under rules laid down by the Department of Health, Education & Welfare, may not make a loan to any individual exceeding 10 per cent of the paid-in and unimpaired

share capital and surplus. The various state regulatory bodies also set lids on the size of loans that can be granted members.

The federal-chartered credit unions are limited to a maximum interest of 1 per cent a month on the unpaid balance. The top rate in state charters is usually the same, or 6 per cent on a discount basis, which is very close to 1 per cent a month.

In handling surplus capital, the federal-chartered unions put it in savings banks or invest it only in (1) loans to members; (2) shares of savings and loan associations, which are insured by the Federal Savings Loan Insurance Corporation; (3) government bonds; or (4) loans to other credit unions. State charters also explicitly limit investments of surplus capital to conservative issues of the type prescribed for savings banks and other institutions.

For the future, the trend is up. A number of credit unions are liquidated each year because would-be borrowers take their business to banks and private finance companies. But the number of new unions organized is far larger than the number that fold.

—*Business Week*, April 17, 1954, p. 41:3.

How High Are Corporate Profits?

HERE IS THE over-all picture today on corporate profits, based on estimates made by the Department of Commerce:

Profits *before* taxes were the second highest on record last year, reaching \$43.2 billion. This was only \$500 million less than the record set in 1951.

However, profits after taxes were \$19.6 billion and were the fourth highest on record. This was \$3 billion less than the record set in 1950, but \$1 billion more than in 1952.

Many corporations had better sales and earnings in 1953 than in 1952. Gains were made in such industries as air conditioning, steel, chemicals, building supplies, paints, containers, and nonferrous metals. The earnings of some companies, however, dipped in 1953. This was due to such factors as increased competitive selling, defense cutbacks, and the falling off of farm demand.

—*Management Information* (Elliott Service Company, 30 North MacQuesten Parkway, Mount Vernon, N. Y.) 4/19/54

U. S. Overseas Investment Increases Rapidly

THERE IS a growing movement toward greater investment of private American capital in foreign countries—and the favorable attitude of the U. S. Government toward American investment in overseas enterprises, evidenced by special treaties dealing with problems of double taxation or discriminatory treatment of U. S. investors abroad, has greatly encouraged this trend.

Foreign governments and industrialists, who formerly raised barriers against foreign establishments coming into their areas, are also inviting American investment, realizing that their own interests are served by allowing the entry of branch plants and subsidiaries of American establishments.

While important investment opportunities have always existed in most parts of the world, there has been a notable shift to new countries and areas. In 1929 about half of all our investments were in the neighboring areas of Canada, Mexico, and the West Indies. By 1950 the investments in these areas accounted for only 40 per cent, because of a rapid increase in investments in Venezuela and other Latin American countries. Investments in Canada rose by nearly 80 per cent between 1929 and 1950, and it continues to lead as an attractive area. Other investment outlets attracting an increasing share of American capital are the United Kingdom, Africa, Asia, and the near East.

The form of organization most frequently used by Americans who invest in manufacturing abroad is the subsidiary or affiliate incorporated under the laws of some foreign country. Of approximately 7,500 foreign organizations, more than 5,000 or two-thirds of the total number, were foreign-incorporated enterprises. The remaining one-third of the organizations took the form of branches, partnerships, or sole proprietorships.

Capital investments in production facilities located in foreign countries with capital to invest in production facilities are not made by corporate organizations or great establishments alone. Americans not affiliated with U. S. companies have invested more than \$1 billion in the securities of 1,255 foreign enterprises that are controlled in the United States.

—*Industry* (Associated Industries of Massachusetts) 2/54

Spending for Production Equipment—The Long-Term Trend

AMERICAN BUSINESS MEN are spending relatively more for new production equipment now than they did before World War II, according to data recently released by the Office of Business Economics.

During the 1920's, between 5 and 6 per cent of total fixed capital output went equally to equipment purchases and nonresidential construction. Since the war, however, equipment purchases have been about 6.5 per cent of total output, while nonresidential construction has been only 3 per cent.

Specifically, equipment purchases were \$22 billion in 1951 and again in 1952. That's about 3 to 4 times the actual dollar value of such buying in 1929. Even squeezing the inflation out of the increase, equipment purchases in the past five years have averaged about twice those of 1929 in physical volume.

All major groups of equipment contributed to the gain, but machinery purchases increased the most, accounting for 58 per cent of the purchases in 1952 (compared with 48 per cent in 1929).

Investment in production equipment was not merely for replacement demands. Gross physical stocks of privately owned equipment increased about four-fifths between the end of 1941 and the end of 1952.

—*Steel* Vol. 133 No. 22

DON'T BE FOOLED BY INTEREST RATES!

WHEN you make an economic study for a proposed new plant, it's not too difficult to assign dollar costs to most items involved. Adequate engineering studies of the new plant and its operations readily define such outlays as equipment, wage rates, and utility charges.

Unfortunately, pinpointing the right charge for the capital you're going to need is much harder. Opinions as to the best way to select and apply interest rates vary all over the lot—and miscalculation can be disastrous. If you estimate too high, a really good project may die on paper. If you're low, your company may be enticed into a very unsound investment.

Businesses get needed expansion money in various ways at highly divergent costs. A recent study indicates that corporations secure about 25 per cent of their new capital through external financing—stock and bond issues, borrowing from banks and insurance companies. Roughly 32 per cent comes from retained profits; depreciation funds account for 24 per cent; and the balance comes from such short-term sources as allowances for future taxes and other obligations.

The cost of external capital directly reflects the degree of risk taken by the supplier. Here are some recent typical interest rates paid for capital from various external sources:

	<u>Stated Annual Rate</u>	<u>Before Taxes</u>	<u>After Taxes</u>
Bonds	3%	3%	1.4%
Bank loans	4%	4%	1.8%
Preferred stock....	4%	9%	4%
Common Stock....	none	22%	10%

These rates are applicable to well-established, dependable corporations; a

new business, or one in a less secure financial condition, would have to pay more in each category. It's important to note that, from a tax standpoint, bond interest and stock earnings fall on opposite sides of the fence. Since interest, unlike stock dividends, is considered an expense for tax purposes, borrowed capital is cheaper and equity capital more expensive than is indicated by the stated rates. (It's unrealistic, of course, to assume that every new project will be financed by borrowing new capital at a low interest rate.)

When additional capital comes from the sale of common stock, determining the cost of the money presents some complexities.

The most reasonable approach to the problem is from the standpoint of your existing stockholders. As far as they are concerned, the cost of such new capital is the present rate of common stock earnings. To determine this rate you must measure (1) the earnings attributable to outstanding common stock and (2) the total investment of present common stockholders.

In order to minimize the effect of business fluctuations, net earnings should be averaged over a five- to 10-year period. Current market price of the stock—not a past average—must be used to measure the common stockholders' investment.

Like external capital, internal funds have a definite time value, though there's no generally accepted way of calculating it. Since for any specific project it's impossible to break down internal capital into depreciation reserves and retained earnings, a cost must be established that doesn't require source identification. One common practice is to charge this capital

with a relatively low interest rate, on the theory that it could be used to pay off funded debt—or otherwise be put into riskless, low-return investments, such as government bonds.

A sounder approach, however, is to assign this capital an interest rate equal to the company's return on all its capital. This, in effect, requires a new investment to earn at least at the same rate as the average existing investment. If you don't require this minimum, your company's earnings rate will shrink.

When you use this system, take care that the recipients of your economic study are aware of its implications. Any proposal that shows a break-even with this type of interest will be at least as profitable as the average operations of the company.

Having picked the interest rate to be used, the next step is to apply it to your capital estimate in order to establish the interest cost of the project. Interest cost may be calculated on either initial investment or average investment over the life of the project. The latter method appears

to approximate more nearly the conditions that exist in business practice, since funds withheld as depreciation reserves are no longer involved in the project under consideration.

It's extremely important that you don't use interest charges as a lever to force a desired return on your investment. In some companies it is the practice to establish an arbitrary level of return to be met by all projects, and then to use this rate as the capital charge in cost estimates. Such a system tends to obscure the true cost of capital. When used to make estimates of new product costs, this method doesn't yield a cost at all, but a cost-plus-partial-profit.

Interest charges should not be set at an arbitrarily high level, either, in order to make your estimate more conservative. The purpose of any cost evaluation is to provide management with the closest possible estimate of a project. It is then management's problem to weigh the economic study, add in all intangibles, and apply executive judgment.

—WARREN H. BUELL. *Chemical Engineering*, May, 1954, p. 183:4.

EQUIPMENT-LEASING: MORE GROWTH AHEAD?

DESPITE A WELTER of taxation and legal problems, leasing of capital equipment to manufacturing firms continues to rise. At present, it is just about possible to start a major plant into full-tilt operation with a scattered handful of rental payments.

Leasing arrangements are available on machine tools new and used, conveyor systems, office machines, trucks, welding equipment, X-ray equipment, materials-handling equipment, office machines—even a plant air-conditioning system and

sprinkling system are available on lease.

A recently published study of leasing by the Council for Technological Advancement seems to confirm the advantages, both for lessor and lessee, of leased capital equipment. Though CTA and its affiliate, the Machinery & Allied Products Institute, made it clear that they held no brief for capital equipment leasing, their report brought to light some inherent good points in leasing and indicated that there are at least some possible solutions

to the thorny taxing and legal problems involved.

At present, courts frequently find that a lease, with an option-to-purchase clause included, constitutes a conditional sale. Therefore, the user of the equipment, the lessee, must pay presently unallowed depreciation as he would on a piece of his own capital equipment.

The CTA suggestion: An option-to-purchase clause should not convert a leasing arrangement into a conditional sale, as is often happening under present court interpretation. Instead, a declining-balance depreciation method should be used, at twice the currently applicable straight line rate, for the party who has to pay depreciation. This would mean that two-thirds of the cost of the equipment would be written off in the first half of its life.

A further corollary in the CTA study is the suggestion that depreciation on a piece of leased equipment be plus-or-minus 15 per cent over owned capital goods depreciation. In use, depreciation on leased equipment often runs higher than the rate of wear on equipment being

used in the owner's own shop—pushing the plus-or-minus to the plus side.

The CTA suggestions have already been placed before the Internal Revenue Service for consideration.

Further rapid growth in leasing would certainly require the entry of more money into the capital-goods field. This would be through financial firms, particularly insurance companies, who would finance the long-term leasing of capital equipment.

Leases currently are usually short and generalized in their wording. Rentals are based on actual output of the leased item, or a fixed rental charge, or a combination of both. Rentals are constructed to recover the value of the machine plus normal investment of the return over a specified period, with taxes and assessments paid by the user.

Costs for insurance, maintenance, supplies and accessories, repairs, and alterations can be paid by either party, depending on the individual lease.

From now on, leases are likely to grow longer, more technical. Over-all, there is one definite trend: Leasing is expanding, and it may well get easier.

—K. W. BENNETT. *Iron Age*, April 1, 1954, p. 68:1.

Raising the Sights on 1954

FAR FROM BEING dismayed by the decline to date or disturbed by gloomy talk about a further drop in business, American business men—and particularly manufacturers—are actually adding to their spending plans in order to increase productive capacity.

This confidence shows up clearly in McGraw-Hill's seventh annual survey of the plans of business for new plant and equipment. In the preliminary report made by McGraw-Hill last fall, manufacturers figured to spend about 8 per cent less this year than they did in 1953. Now, they have raised their sights and are aiming to equal or exceed the \$12.2 billion that made last year the biggest ever for investment outlays in manufacturing.

If the upward shift in manufacturing recorded by McGraw-Hill is accurate, and Commerce Department estimates in other categories hold good, capital spending for all industry in 1954 will show practically no change from the over-all total of \$28.3 billion spent last year.

Most companies are adding to capacity because they want to better their com-

petitive position through greater efficiency and, at the same time, increase their share of the market. In addition, they don't want to be left behind when demand turns up.

For most of the post-World War II period, expansion took the lion's share of capital expenditures. In 1952 and last year, there was an almost even split between expansion and modernization. This year, however, 57 per cent will go for modernization, while in 1955-57 this phase of capital expenditure is likely to account for 61 per cent of every dollar spent.

The anticipation of stiff competition has pushed more and more companies into future planning. This year, more than 9 out of 10 answering McGraw-Hill's questionnaire are making some preliminary estimates for a four-year period ahead. This compares with 81 per cent in 1953 and 65 per cent in 1952.

At the same time, fewer companies are making detailed plans for more than the next two years. In 1952, 93 per cent of manufacturers were planning detailed expenditures two years in advance, while last year only 63 per cent followed this practice. This year, it is down to 56 per cent. This is probably due to the fact that many companies have completed their major expansion plans and are waiting for new technological processes before compiling new plans in detail.

—Business Week 4/17/54

Also Recommended • • •

HELPING TOP MANAGEMENT KEEP ON TOP OF RESEARCH. By John V. James. N.A.C.A. Bulletin (305 Park Avenue, New York 22, N. Y.), March, 1954. 75 cents. Stating that project and expense classification accounting for industrial research is only a beginning, the author of this article offers a three-way classification system which would keep the top executive responsible for the research program properly informed on the direction and status of research expenditures. Included in the article are two sample reports, adequate for limited situations, and three others which may be called for as research projects expand.

RESPONSIBILITY ACCOUNTING. By Irving L. Wood. *Best's Fire and Casualty News* (75 John Street, New York 38, N. Y.), April, 1954. 50 cents. Discusses the workings of an accounting system which attempts to use accounting statements primarily as cost-cutting tools rather than as yardsticks of efficiency, by requiring the individuals who are responsible for expenditures to draw up their own budgets, and by charging each "responsibility area" with the costs over which it actually has control. The author points out that the responsibility system, while not resulting in the development of true total departmental costs, is both flexible and highly effective. He describes in detail how it is applied in his company's accounting department.

U. S. TAX INCENTIVES FOR PRIVATE FOREIGN INVESTMENT. Foreign Commerce Department, Chamber of Commerce of the United States, Washington 6, D. C. 50 cents. This study, prepared by the Stanford Research Institute in cooperation with the U. S. Chamber of Commerce, discusses the effect of tax incentives on direct investment by American corporations abroad, and the importance of this investment to the long-term military and economic security of the United States and its allies. It proposes a tax incentive plan which would provide economically justified inducements for American corporate investment abroad, suggesting, also, additional incentives that can be offered by foreign nations desiring this capital.

A YARDSTICK FOR INSTITUTIONAL BUYING. By Edward P. Rubin. *Commerce* (1 North La Salle Street, Chicago 2, Ill.), April, 1954. 35 cents. Increasingly large amounts of the vast assets acquired each year by pension plans, insurance companies, and mutual funds are going into common stocks, with the result that today institutions are accounting for the equivalent of 10 per cent of all trade in common stocks on all U. S. exchanges. In analyzing this development, the author compares the institutional investor with other stock buyers, pointing out that the institutional investor tends to place less emphasis on capital gain and more on income.

Insurance Management

SOLVING THE HEALTH INSURANCE PROBLEM: ONE COMPANY'S APPROACH

THE UPJOHN COMPANY's aim in developing its health insurance program has been to make available to our employees coverage of a kind that would give them real assistance in meeting the costs of illness. We believe that our present plan, the outgrowth of a 10-year period of experimenting with various programs and adapting them to the needs of our group, meets this objective.

Our health insurance program applies alike to employees and their dependents (wives and unmarried children under 19). Members contribute a nominal amount, about 10 per cent of the cost. Over 99 per cent of the eligible employees are members, and they have subscribed voluntarily. Retired employees and their dependents are insured at company expense. The plan reimburses the employee for the expenses of hospitalization, surgery, doctors' calls in the hospital, and diagnostic X-rays and laboratory examinations.

The hospitalization plan covers the full cost of hospital care up to 120 days for each period of disability when the employee or dependent uses semi-private or ward accommodations. All types of disabilities are covered, except those provided for by workmen's compensation. The only limitations are that confinement must be recommended and approved by a doctor; also, the insurance does not apply to confinement in facilities owned or operated by the United States Government.

This plan is carried with an insurance company.

Before buying surgical expense insurance, we surveyed our employees to find out what their actual expenses had been for various kinds of operations. Then we bought a plan which we thought would cover half to two-thirds of such expenses. We watched our experience carefully, and compared surgical fees with benefit payments. When experience showed that our surgical fee schedule was inadequate in certain spots, we got the insurance company to increase those benefits.

Our present surgical plan reimburses the employee for the amount charged by the surgeon for the operation and for post-operative medical expense up to a maximum stipulated in a schedule of surgical operations and benefits. The benefits payable for individual operations range up to \$240. Subject to the maximum for each operation, total benefits for all operations during any one period of disability may go as high as \$480. During the first year, benefits under the plan totaled 76 per cent of the surgical fees charged. The plan excludes operations covered by workmen's compensation and most dental surgery. Hospital confinement is not required.

A third part of our health insurance program pays for doctors' calls in the hospital when the employee or his dependent is confined for non-surgical treatment. The benefit equals the fees charged by the physician, up to a maximum

amount equivalent to \$4 times the number of days during any one period of disability. This again is insurance for disabilities not already covered by workmen's compensation. Benefits are not payable for treatment outside a hospital, treatments caused by or resulting from pregnancy, dental work or treatment, or eye examinations or the fitting of glasses. X-rays, drugs, dressings, and medicine are also excluded, but these are covered in full by the hospitalization insurance.

The insurance program further pays for laboratory and X-ray examinations received by the employee or his dependent and made or recommended by a physician in connection with the diagnosis of illness or injuries not covered by workmen's compensation. Reimbursement equals the fees actually charged up to a maximum of \$50 for all examinations in connection with any one accident, and \$50 in connection with all illnesses in any six consecutive months. Coverage is limited to examinations made when the individual is not confined to a hospital.

For many years it has been our policy to provide income to employees during periods of personal illness. The rate and the duration of the pay are based upon length of service, attendance record, quality of performance, and dependency status.

Employees with less than one year's service who are ill are paid a minimum of one day's base pay for each month of service. Employees with one year or more of service who are ill are paid a

minimum of three weeks' base pay during each calendar year. However, sick pay is often continued for much longer periods to employees with long service, and good performance and attendance records. Since our sick pay plan goes beyond what insurance companies can offer our employees in disability insurance policies, it is not insured.

Though we realize that it is important from the standpoint of employee relations to pay benefits for many expenses which are really not very burdensome, our basic objective is to assist employees in meeting those costs which cannot ordinarily be met out of current income.

During a period of approximately three years, 389 employees have each received more than \$500 in benefits, 93 have received over \$1,000 each, and five have received more than \$3,000. While this is not catastrophe medical insurance, the plan is certainly covering some major medical expense. It seems clear to us from our experience that a plan with just the "basic coverages" can go a long way toward providing effective protection against the costs of illness.

Our plan has its shortcomings, of course. For example, we have no insurance to pay for doctors' calls or drugs when illnesses do not require hospitalization, and there is no insurance to pay for special nursing care or X-ray therapy. However, we do offer full insurance benefits for dependents and pay the entire cost of insurance coverage for retired employees.

—JAMES C. CRISTY. *Best's Insurance News*, April, 1954, p. 57:5.

FIRES LAST YEAR damaged or destroyed more than 70,000 places of business in the United States—and 90 per cent of these fires were caused by individual carelessness, according to the National Board of Fire Underwriters. Eleven per cent of all building fires last year were in mercantile establishments.

THE INSURANCE AGENT'S JOB: ROOM FOR INITIATIVE

THE MAJOR responsibility for most insurance activities today is borne by the agent. His is the job of both analyzing the exposure and buying the protection.

If it were possible to apply standard coverages in all situations, a large part of his worries would be over. But today even the most standard of all insurance policies, the workmen's compensation policy, requires amendment, enlargement, or extension to fit exactly the insured's requirements. The burden of devising and developing such modifications is properly the responsibility of the agent. For this reason, I should like to discuss the specifications which, in their fulfillment, entitle a man to the designation "Insurance Agent."

First of all, his method of solicitation must be professional, ethical, and creative. It must be based on a sound knowledge of the insurable problems of the industry to which the solicited account belongs. Intelligent questioning, in various quarters, and reading of trade and other publications will permit him to learn a good deal about the products, sales, and methods of production and distribution of his prospective client. Using all this information, he should be able to set up a tentative insurance program which, with some minor adjustment, can become a correct pattern for his client's coverage.

However, obtaining an insurance contract which fills his new client's needs is not enough. The insured doesn't wish merely to have an adequate adjustment of a loss; he wants no loss to begin with. He knows that, regardless of the indemnification he receives from an insurance company for any property loss, he will suffer an intangible consequential loss which cannot be measured in dollars. This

creates a new and broader responsibility for the agent. He must use wisely the reports made by the insurance company's engineers on the probability of fire or allied loss. He must delete inconsequential recommendations and see that action is taken on important ones. Since the agent can't very well give orders to his insured, he may have to do a substantial job of education.

It might be pointed out that while the corporate insurance executive may be an authority on his own company's insurance, the rounded experience of the trained agent is invaluable to him. An agent having a loss experience in one line of business is in a position to suggest an increase in limits to another client who may be exposed to similar losses. His review of the situation may indicate the need for an insurance contract which has never been considered before.

Sometimes the question is raised: "What is the agent's role when a loss occurs?" The answer is that he should apply the knowledge he has gained in his solicitation pre-approach work. Prior to the loss he attempted to learn something of the operating, financial, and accounting practices of his client. He must now be able to certify to his client that the claim is proper in so far as coverage is concerned and that its extent is stated with fairness both to the insured and the insurer.

There is one field in corporate insurance where the agent can prove his worth in a rather dramatic manner. It is generally agreed that he is responsible for reviewing all workmen's compensation loss experience. He should therefore make absolutely certain that all payroll is charged according to the proper classifica-

tion. It will be found that the all-inclusive nature of many classifications creates an unfair charge in many industries, the more hazardous exposures being unduly benefited and the minimum exposures unfairly burdened. If necessary, the agent should take matters of this nature before the proper rating authorities and request relief.

The second part of the agent's review of workmen's compensation loss experience requires a check of the experience rating data resulting in the percentage credit or debit deviation from the standard rate. While it is not the rule, it is sometimes found that cases are charged to one employer when they should have been charged to another. It is also acknowledged that duplication may take place both within a particular year and in consecutive years.

Equally important is the review of the retrospective adjustment which, through revaluation of outstanding reserves or payment of losses, increases or decreases the retrospective premium. In this portion of the review, agents are sometimes subjected to criticism by insurance companies, which feel that the reserves placed on workmen's compensation claims by their examiners are fair and reasonable, since

otherwise the reserves would have been revised. It should be obvious, however, that when cash reserves abruptly rise, the employer will wish to reinvestigate his entire situation. He will want to learn, not only the extent of the increase, but the reason for it. Should the insurance company reject the review, those who are not familiar with insurance practices may conclude that the refusal is due to the existence of excessive reserves.

We now reach that part of the insurance agent's responsibility which places the greatest demand on experience and knowledge. This is the continued study of the over-all exposure to make sure that changing conditions, internal or external, do not become the source of unanticipated problems. There are always some situations which, after their discovery, must be accepted as calculated risks. Concerning these, the agent is well advised to point out that the exposure is limited in its loss possibility, though the probability of loss is definite. He may recommend a reserve fund as a form of self-insurance against these contingencies. In short, the agent's first thought in this, as in all other cases, should be to find the course of action most beneficial to his client.

—From an address by R. B. GALLAGHER at the Chicago Insurance Day Program.

Large-Loss Fires Are on the Increase

LARGE-LOSS industrial fires—those that damage or destroy property worth \$250,000 or more—are increasing, and large manufacturing establishments in particular are becoming more vulnerable to fire and explosion as a result of their use of complex and hazardous processes, according to Mathew M. Braidech, research director of the National Board of Fire Underwriters.

Big industrial fires accounted for one-fourth of last year's record-breaking billion-dollar fire losses in the United States and Canada, states Mr. Braidech. Losses resulting from such fires were up 50 per cent over 1952. Significantly, 80 per cent of large-loss fires occurred in buildings of "non-fire-resistive" construction. A similar proportion were due to special hazards; 70 per cent had no automatic fire protection; about 60 per cent involved excessive areas; and 50

per cent were in plants located in small or suburban communities—where, in more than 40 per cent of the cases, there was insufficient water for fire-fighting.

Mr. Braidech urged that more thorough consideration be given the engineering elements of fire and explosion safety in plant design, operation and maintenance. While changes in processing methods have in many cases merely increased existing fire hazards, the increasing use of highly reactive chemicals and new construction materials, replacing many items previously made of noncombustible materials, is bringing new fire problems into play. He noted that many industrial fires in the past have been indicative of improper risk evaluation, lack of appreciation of the destructive potential of fires, and disregard for needed safeguards in hazardous operation and in new construction arrangements and process alterations.

—Weekly Underwriter 4/17/54

Medical Catastrophe Risk Plans Grow

SINCE THE INCEPTION five years ago of major medical expense insurance, the number of employees and dependents covered by the new form has grown to more than a million, and more than 25 insurance companies have entered this field.

Conventional hospital, surgical, and medical expense policies now being issued generally contain higher benefits and longer covered periods than those of a few years ago. However, many expensive types of treatment are not included in the limited forms. The new major medical expense insurance was designed to include them. Coverage is so broad, says the Life Insurance Association of America, that, in most cases, treatments not yet thought of will be included as they are developed.

A typical major medical expense group plan is outlined by the LIAA as follows:

Maximum amount deductible: \$5,000 (sum of payments under basic Hospital-Surgical Plan plus 5 per cent of salary). Coinsurance: 25 per cent. Premiums are calculated as shown below:

Percentage of employees earning \$5,000 or over annually	Monthly Premiums per Employee	
	Employee benefits	Dependent benefits
Less than 10%	\$0.59	\$1.24
10% but less than 20%76	1.60
20% but less than 30%93	1.95
30% but less than 40%	1.10	2.31
40% but less than 50%	1.27	2.67
50% but less than 60%	1.44	3.02
60% but less than 70%	1.61	3.38
70% but less than 80%	1.78	3.74
80% but less than 90%	1.95	4.10
90% and over	2.12	4.45

Covered expenses include cost of treatment by a legally qualified physician or surgeon, hospital confinement, nursing service by a trained nurse other than a member of the employee's household, and necessary medical and surgical supplies. The plan outlined is, of course, only one of many possible variations.

—Journal of Commerce 3/17/54

Facts on Old Age

OVER 1,000 U. S. residents are still going strong after living a full century. The hardy 1,000—just a portion of our centenarian population—were revealed in a study of all needy aged who receive public assistance.

The U. S. Department of Health, Education, and Welfare checked a statistical sample of the 2.6 million persons over 65 who receive funds under the State-Federal old-age assistance programs. Four-fifths of all needy aged, it was found, are 70 years of age or older—but in spite of their age, 82 per cent are able to care for themselves, and less than 4 per cent are bedridden.

Most of the needy aged (59 per cent) live with a relative; over a fourth of them live alone, and less than 5 per cent live in any type of institution or nursing home. More than half (54 per cent) have been dependent on public assistance for less than five years; and only 5 per cent have received it for 15 or more years.

—The Spectator 4/54

Also Recommended • • •

WORKMEN'S COMPENSATION REPORT. By H. F. Richardson. *Best's Fire and Casualty News* (75 Fulton Street, New York 38, N. Y.), April, 1954. 50 cents. An extensive review of claim experience, rate revisions, etc., in the workmen's compensation field during 1953, prepared by the general manager of a national association representing companies who write insurance in this field. Included in this discussion are an analysis of criticisms commonly directed at the level of workmen's compensation rates and carriers' profits; a description of the newly revised American Accident Table, embodying the latest statistical data on industrial injuries; and a review of state legislation during the past year, with special reference to Wisconsin and New York State court decisions on loss-of-hearing claims.

ACCIDENT AND HEALTH INSURANCE TODAY. By J. F. Follman, Jr. *The Weekly Underwriter* (116 John Street, New York 38, N. Y.), March 13, 1954. 25 cents. Pointing out that vast changes have taken place in accident and health insurance during the last 20 years, the author discusses five major areas where change is most marked: (1) in the degree of public interest shown in this type of protection; (2)

in the expansion of coverage and the broadening of benefits; (3) in the socio-political influences on this coverage, evident in various proposals introduced in Congress; (4) in the recent flow of literature and publicity on the subject—in recent months alone, at least 15 articles on accident and health insurance have appeared in national magazines and syndicated newspaper columns; and (5) in the rising tide of criticism directed against the advertising and claim practices of some companies in this field.

A HALF CENTURY IN LIFE INSURANCE. By Leroy A. Lincoln. *Vital Speeches of the Day* (33 West 42 Street, New York 36, N. Y.), February 1, 1954. 30 cents. The Chairman of the Board of the Metropolitan Life Insurance Company here surveys the history of the U. S. life insurance industry in the years 1903—1953. Among the important developments touched upon in this broad review: the Armstrong Legislative Investigation of 1905 and the legislation resulting from it; the writing of the first group life policy in 1912; the beginnings of unemployment insurance during the 1920's; the founding of the Institute of Life Insurance; and the rapid doubling of insurance in force during the past decade.

In Our Next Issue

"Essentials of Successful Pension Planning," a special feature scheduled for the July issue of the REVIEW, will comprise articles by C. Henry Austin and William J. Carroll, of the Standard Oil Company (Indiana), adapted from presentations made at AMA's recent Special Conference on Employee Group Benefits.

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